

**XII. TREASURY SERVICES DOCUMENTS
A. REPORT OF THE ANNUAL AUDIT****Western North Carolina
Conference of the
United Methodist Church
and Subsidiary**

Consolidated Financial Report
December 31, 2017

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RSM US LLP

Independent Auditor's Report

To the Council on Finance and Administration
Western North Carolina Conference of
the United Methodist Church and Subsidiary
Charlotte, North Carolina

Report on the Financial Statements

We have audited the accompanying consolidated financial statements of the Western North Carolina Conference of the United Methodist Church and Subsidiary (the Conference), which comprise the consolidated statements of financial position as of December 31, 2017 and 2016, the related consolidated statements of activities and cash flows for the years then ended, and the related notes to the consolidated financial statements (collectively, the financial statements).

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Conference as of December 31, 2017 and 2016, and the changes in their net assets and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

RSM US LLP

Charlotte, North Carolina
June 11, 2018

**Western North Carolina Conference
of the United Methodist Church and Subsidiary**

**Consolidated Statements of Financial Position
December 31, 2017 and 2016**

	2017	2016
Assets		
Cash	\$ 4,276,328	\$ 9,956,519
Restricted cash	177,476	323,622
Accounts receivable	3,860,811	3,239,748
Agency accounts receivable	177,901	63,948
Investments	92,306,644	74,640,248
Notes receivable	338,291	885,711
Prepaid expenses and other assets	992,608	189,079
Inventory	740,058	318,055
Land, building, improvements and equipment, net	3,929,956	3,535,522
	<u>\$ 106,800,073</u>	<u>\$ 93,152,452</u>
Liabilities and Net Assets		
Liabilities:		
Accounts payable and accrued expenses	\$ 1,444,440	\$ 1,134,538
Agency liabilities	355,377	387,570
Liability for amounts held in trust	184,893	241,694
Deferred grant revenue	542,814	673,368
Accrued health benefits	923,701	707,675
Accrued postretirement health benefit obligation	10,078,446	14,629,723
Total liabilities	<u>13,529,671</u>	<u>17,774,568</u>
Commitments and contingencies		
Net assets:		
Unrestricted		
Board designated	39,096,058	32,621,777
Investment in land, building, improvements and equipment	3,929,956	3,535,522
Undesignated	46,304,151	35,194,859
	<u>89,330,165</u>	<u>71,352,158</u>
Temporarily restricted	3,103,469	2,700,485
Permanently restricted	836,768	1,325,241
Total net assets	<u>93,270,402</u>	<u>75,377,884</u>
	<u>\$ 106,800,073</u>	<u>\$ 93,152,452</u>

See notes to consolidated financial statements.

Western North Carolina Conference
of the United Methodist Church and Subsidiary

Consolidated Statements of Activities
Years Ended December 31, 2017 and 2016

	2017			Total
	Unrestricted	Temporarily Restricted	Permanently Restricted	
Revenues, gains and other support:				
Apportionment income	\$ 16,292,847	\$ -	\$ -	\$ 16,292,847
Premium income	11,469,835	-	-	11,469,835
Pension direct invoicing	5,747,429	-	-	5,747,429
Contributions	1,154,272	1,712,043	-	2,866,315
Grants	1,680,633	30,969	-	1,711,602
Investment income	1,398,585	40,604	-	1,439,189
Gain on sale of closed churches	1,237,985	-	-	1,237,985
Other income	451,771	-	-	451,771
Net assets released from restrictions	1,523,657	(1,523,657)	-	-
Total revenues, gains and other support	40,957,014	259,959	-	41,216,973
Expenses:				
Grants	2,345,596	-	-	2,345,596
Program disbursements	10,794,675	-	-	10,794,675
Management and general	9,501,224	-	-	9,501,224
Health benefit claims	14,520,788	-	-	14,520,788
Annual conference	82,914	-	-	82,914
Memorial center	136,508	-	-	136,508
General church expenses	4,448,758	-	-	4,448,758
Total expenses	41,830,463	-	-	41,830,463
(Decrease) increase in net assets from operating activities	(873,449)	259,959	-	(613,490)
Nonoperating:				
Net gain on investments	8,874,501	282,083	-	9,156,584
Postretirement changes other than net periodic postretirement health benefit costs	4,863,271	-	-	4,863,271
Allocation from Ministers Reserve Pension Fund	4,486,153	-	-	4,486,153
Net assets released from restrictions	627,531	(627,531)	-	-
Change in endowment classification	-	488,473	(488,473)	-
Total nonoperating gains	18,851,456	143,025	(488,473)	18,506,008
Change in net assets	17,978,007	402,984	(488,473)	17,892,518
Net assets, beginning	71,352,158	2,700,485	1,325,241	75,377,884
Net assets, ending	\$ 89,330,165	\$ 3,103,469	\$ 836,768	\$ 93,270,402

See notes to consolidated financial statements.

2016			
Unrestricted	Temporarily Restricted	Permanently Restricted	Total
\$ 16,556,903	\$ -	\$ -	\$ 16,556,903
11,151,080	-	-	11,151,080
5,912,618	-	-	5,912,618
1,318,066	589,717	-	1,907,783
1,490,733	142,134	-	1,632,867
1,149,431	57,475	-	1,206,906
767,415	-	-	767,415
969,896	-	-	969,896
1,944,359	(1,944,359)	-	-
41,260,501	(1,155,033)	-	40,105,468
2,941,541	-	-	2,941,541
11,149,844	-	-	11,149,844
8,049,148	-	-	8,049,148
11,205,610	-	-	11,205,610
91,375	-	-	91,375
218,643	-	-	218,643
4,720,846	-	-	4,720,846
38,377,007	-	-	38,377,007
2,883,494	(1,155,033)	-	1,728,461
4,323,872	203,814	-	4,527,686
869,553	-	-	869,553
4,383,411	-	-	4,383,411
-	-	-	-
-	-	-	-
9,576,836	203,814	-	9,780,650
12,460,330	(951,219)	-	11,509,111
58,891,828	3,651,704	1,325,241	63,868,773
\$ 71,352,158	\$ 2,700,485	\$ 1,325,241	\$ 75,377,884

Western North Carolina Conference
of the United Methodist Church and Subsidiary

Consolidated Statements of Cash Flows
Years Ended December 31, 2017 and 2016

	2017	2016
Cash flows from operating activities:		
Change in net assets	\$ 17,892,518	\$ 11,509,111
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	114,374	122,305
Net gain on investments	(9,156,584)	(4,527,686)
Postretirement-related changes other than net periodic postretirement health benefit cost	(4,863,271)	(869,553)
Change in restricted cash and agency liability	113,953	(8,951)
Gain on sale of property	(451,771)	(969,896)
Changes in assets and liabilities:		
(Increase) decrease in:		
Accounts receivable	(735,016)	(151,400)
Prepaid expenses and other assets	(803,529)	1,870
Inventory	(422,003)	126,686
Increase (decrease) in:		
Accounts payable and accrued expenses	309,902	(818,273)
Liability for amounts held in trust	(56,801)	75,328
Deferred grant revenue	(130,554)	67,116
Accrued health benefits	216,026	(197,520)
Accrued postretirement health benefit obligation	311,994	(491,049)
Net cash provided by operating activities	2,339,238	3,868,088
Cash flows from investing activities:		
Purchase of improvements and equipment	(1,037,811)	(666,312)
Purchase of investments	(14,811,643)	(7,432,965)
Proceeds from sale of investments	6,301,831	4,004,440
Proceeds from sale of property	980,774	980,400
Proceeds from notes receivable	574,762	6,235
Issuance of notes receivable	(27,342)	(41,886)
Net cash used in investing activities	(8,019,429)	(3,150,088)
Net (decrease) increase in cash	(5,680,191)	718,000
Cash:		
Beginning	9,956,519	9,238,519
Ending	\$ 4,276,328	\$ 9,956,519

See notes to consolidated financial statements.

**Western North Carolina Conference
of the United Methodist Church and Subsidiary**

Notes to the Consolidated Financial Statements

Note 1. Nature of Organization and Significant Accounting Policies

Nature of organization: The Western North Carolina Conference of the United Methodist Church and Subsidiary (the Conference) is a not-for-profit organization representing approximately 1,100 member churches and is comprised of eight districts. The Conference provides various services for its member churches including administration of health benefits and retirement plans available to member clergy and Conference lay employees and collection of funds for remittance to various regional, national and global benevolences.

A portion of the funds collected from its member churches is remitted to the General Council on Finance and Administration of the United Methodist Church, which provides funds to national and global benevolences. The amounts remitted have been included in the statement of activities as general church expenses.

Principles of consolidation: The Conference's consolidated financial statements include the accounts of the Western North Carolina Conference of the United Methodist Church and the Board of Pension and Health Benefits, Inc., Western North Carolina Conference, The United Methodist Church (Conference Board of Pension and Health Benefits), as the Conference Board of Pension and Health Benefits' board of directors is appointed by the Conference. All significant intercompany accounts and transactions have been eliminated in consolidation. The consolidated financial statements of the Conference also include the funds of the Charlotte Area Episcopal Office.

During the year ended December 31, 2017, Building Teams was merged into the Conference. During the year ended December 31, 2016, Camp Carolwood, Inc. and Elk Schools United Methodist Camp, Inc. were merged into the conference. These entities were previously unconsolidated constituent ministries prior to being merged into the Conference. As these organizations were affiliated with the Conference, the net assets of the organizations were transferred to the Conference at net book value. These transfers were immaterial to the Conference's consolidated financial statements.

Accounting principles generally accepted in the United States of America (GAAP) require the Conference to consolidate entities in which it has control and an economic interest, when that control is evidenced through majority ownership or voting interests. As the Conference has an economic interest in and control of a constituent through means other than majority ownership or voting interests, consolidation is permitted but not required. Therefore, the Conference has elected not to consolidate the constituent, which is described in Note 15.

The Conference has not recognized any asset in its accounts that represents an interest in the net assets of the unconsolidated entities in accordance with the Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) 958-605-30, Transfers of Assets to a Not-for-Profit Entity or Charitable Trust that Raises or Holds Contributions for Others.

A summary of the significant accounting policies follows:

Accrual basis: The consolidated financial statements are prepared on the accrual basis in accordance with GAAP.

Basis of presentation: Net assets and revenues, expenses, gains and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, net assets and changes therein are classified and reported as follows:

Unrestricted net assets: Net assets that are not subject to donor-imposed stipulations.

Western North Carolina Conference
of the United Methodist Church and Subsidiary

Notes to the Consolidated Financial Statements

Note 1. Nature of Organization and Significant Accounting Policies (Continued)

Temporarily restricted net assets: Net assets subject to donor-imposed stipulations that will be met either by actions of the Conference and/or the passage of time. When a restriction expires, that is when a stipulated time restriction ends or purpose is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions.

Permanently restricted net assets: Net assets subject to donor-imposed stipulations that they must be maintained permanently by the Conference. Generally, the donors of these assets permit the use of all or part of the income earned on related investments for general or specific purposes.

Revenues are reported as increases in unrestricted net assets unless use of the related assets is limited by donor-imposed restrictions. Expenses are reported as decreases in unrestricted net assets. Gains and losses on investments and other assets or liabilities are reported as increases or decreases in unrestricted net assets unless their use is restricted by explicit donor stipulation or by law. Expirations of temporary restrictions on net assets are reported as reclassifications between the applicable classes of net assets.

Revenue and support: The principal source of revenue and support is apportionments received from the local churches. Apportionments are the approved levels of allocated support from the local churches. Apportionments expire at the end of each calendar year. Although the church discipline requires local churches to satisfy their apportionment allocation as their first benevolent response, local churches do not have any financial commitment for the underpayment of their apportionments.

Insurance premiums: The Conference administers a self-funded insurance program under which health benefits are provided for clergy and select lay employees of the Conference. Insurance premiums and related expenses are recorded in the period to which the premium and claims relate.

Contributions: Contributions received are recognized as revenues at their fair values when they become unconditional. Contributions with donor-imposed restrictions are recorded as temporarily restricted net assets until the restrictions are met or as permanently restricted net assets. At the time temporary restrictions are met, they are reported as net assets released from restrictions. Contributions received with donor-imposed restrictions, whose restrictions are met in the same reporting period in which they are received, are reported as temporarily restricted support and as net assets released from restriction. Conditional promises are not included as support until such time as conditions are substantially met.

Grants: Grant awards are evaluated by management and determined to be either unconditional contributions or exchange transactions. If considered to be a contribution, revenue from grants is recorded upon notification of the award. If considered to be an exchange transaction, revenue from grants is recorded as expenditures are made under the terms of the respective grant agreement.

Cash: At various times throughout the year, cash balances in financial institutions exceed the amounts which are federally insured. The Conference periodically assesses the financial condition of the institutions and believes that the risk of any loss is minimal.

Restricted cash: The Conference holds funds in various operating accounts related to payments to be made on behalf of other affiliated related ministries. These funds are directed by the third parties and are not available for Conference operations.

**Western North Carolina Conference
of the United Methodist Church and Subsidiary**

Notes to the Consolidated Financial Statements

Note 1. Nature of Organization and Significant Accounting Policies (Continued)

Accounts receivable: As a significant dollar amount of member church apportionments are received close to year end, member churches are provided a cut-off date subsequent to year end in order for churches to fulfill their annual apportionments. Thus, accounts receivable are recognized at the dollar amount of apportionments received by the cut-off date. As such, no allowance for doubtful accounts is necessary.

Notes receivable: The Conference has notes receivable outstanding relating to the sale of land and funds loaned to member churches. The Conference believes the amounts to be fully collectable and does not believe an allowance for doubtful accounts is necessary. Of the amount receivable as of December 31, 2017, \$9,910 is due within one year and the remaining \$328,381 is due through 2035. Interest of 2% to 4.5% annually is paid on the long-term balance. Interest income was approximately \$16,000 and \$23,000 for the years ended December 31, 2017 and 2016, respectively, and is recorded within investment income on the consolidated statements of activities.

Investments: Purchased investments are initially recorded at cost. Investments received by gift are initially recorded at fair value at the date of donation. The Conference's investments are assets invested by the United Methodist Foundation of Western North Carolina, Inc. (the Foundation) and Wespath, the investment agency of the Board of Pension and Health Benefits of the United Methodist Church, under investment agreements wherein the investments are either directly invested or pooled into larger investment funds of the Foundation and Wespath. The Conference's pooled investments are valued at fair value based upon the net asset value (NAV) of each fund as provided by the Foundation and Wespath. The Conference's direct investments, which consist primarily of cash, money market funds and certificates of deposit, are valued at cost, which approximates fair value.

Board-designated investments: The Conference has designated certain investments to function as endowments to fund the Conference's pension and postretirement health benefits. These investments follow the investment policy noted above (see Note 12).

Building, improvements and equipment: Building, improvements and equipment are stated at cost less accumulated depreciation. Building, improvements and equipment received by gift are initially recorded at fair value at the date of donation. Minor renewals and replacements are expensed when incurred.

Depreciation is computed on a straight-line basis over the estimated economic lives of the respective assets held, which are as follows:

Building and improvements	10-40 years
Furniture and equipment	3-10 years

Agency liabilities: The Conference is an agent for various affiliates and constituents. Amounts received and not yet expended on behalf of beneficiaries have been reported as a liability for amounts held for others in accordance with ASC 958-605-30.

Accrued health benefits: The Conference records a liability for their healthcare claims incurred but not reported, which is estimated using actual claims expense and the expected lag in days the claims are outstanding.

Western North Carolina Conference
of the United Methodist Church and Subsidiary

Notes to the Consolidated Financial Statements

Note 1. Nature of Organization and Significant Accounting Policies (Continued)

Operating and nonoperating activities: The consolidated statements of activities report the change in net assets from operating and nonoperating activities. Operating revenues consist of substantially all of the activity of the Conference except for certain items specifically considered to be of a nonoperating nature. Nonoperating activities include contributions restricted for capital expenditures and permanently restricted endowment contributions, net gain on investments, postretirement changes other than net periodic postretirement health benefit costs and significant items of an unusual or nonrecurring nature.

Functional allocation of expenses: The cost of providing program activities is included in the consolidated statement of activities and certain costs have been allocated, based on management's judgment, between the program and supporting services benefited.

Use of estimates: The preparation of consolidated financial statements in accordance with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from these estimates.

Reclassifications: Certain prior year amounts have been reclassified to conform to the current year's presentation with no effect on total net assets or change in net assets as previously reported.

Income taxes: The Conference is exempt from federal income taxes under Internal Revenue Code Section 501(c)(3).

Management evaluated the Conference's tax positions and concluded that the Conference had taken no uncertain tax positions that require adjustment to the consolidated financial statements to comply with the provisions of the Income Taxes Topic of the FASB ASC.

Subsequent events: The Conference has evaluated its subsequent events (events occurring after December 31, 2017) through June 11, 2018, which represents the date the consolidated financial statements were available to be issued.

Recent accounting pronouncements: In May 2014, the FASB issued Accounting Standards Update (ASU) 2014-09, *Revenue from Contracts with Customers (Topic 606)*, which amended the existing accounting standards for revenue recognition. ASU 2014-09 establishes principles for recognizing revenue upon the transfer of promised goods or services to customers, in an amount that reflects the consideration to which an entity is expected to be entitled for those goods or services. The updated standard will be effective for annual reporting periods beginning after December 15, 2018. The Conference is currently in the process of evaluating the effect this guidance will have on its consolidated financial statements and related disclosures.

In February 2016, the FASB issued ASU 2016-02, *Leases (Topic 842)*. The guidance in this ASU supersedes the leasing guidance in Topic 840, *Leases*. Under the new guidance, lessees are required to recognize lease assets and lease liabilities on the balance sheet for all leases with terms longer than 12 months. Leases will be classified as either finance or operating, with classification affecting the pattern of expense recognition in the statement of activities. The new standard is effective for annual reporting periods beginning after December 15, 2019. The Conference is currently evaluating the effect the adoption of this standard will have on its consolidated financial statements.

**Western North Carolina Conference
of the United Methodist Church and Subsidiary**

Notes to the Consolidated Financial Statements

Note 1. Nature of Organization and Significant Accounting Policies (Continued)

In August 2016, the FASB issued ASU 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*, which simplifies and improves how a not-for-profit organization classifies its net assets, as well as the information it presents in financial statements and notes about its liquidity, financial performance and cash flows. Among other changes, the ASU replaces the three current classes of net assets with two new classes, net assets with donor restrictions and net assets without donor restrictions, and expands disclosures about the nature and amount of any donor restrictions. ASU 2016-14 is effective for annual periods beginning after December 15, 2017, with early adoption permitted. The Conference is currently evaluating the impact the adoption of this guidance will have on its consolidated financial statements.

In November 2016, the FASB issued ASU 2016-18, *Statement of Cash Flows (Topic 230): Restricted Cash (a consensus of the FASB Emerging Issues Task Force)*, which provides guidance on the presentation of restricted cash or restricted cash equivalents in the statement of cash flows. ASU 2016-18 is effective for annual reporting periods beginning after December 15, 2018. ASU 2016-18 must be applied using a retrospective transition method with early adoption permitted. The adoption of ASU 2016-18 is not expected to have a material impact on the consolidated financial statements.

In March 2017, the FASB issues ASU 2017-07, *Compensation – Retirement Benefits (Topic 715): Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost*. The new guidance improves the presentation of net periodic pension cost and net periodic postretirement benefit cost. The guidance will require an employer to report the service cost component of net benefit cost in the same line item as other compensation costs arising from services rendered, present the other components of net benefit cost in the statement of activities separately from the service cost component and outside a subtotal of income from operations, and allow only the service cost component to be eligible for capitalization when applicable. The guidance in this update will be effective for annual periods beginning after December 15, 2017, with early adoption permitted. The Conference is currently evaluating the impact the adoption of this guidance will have on its consolidated financial statements.

Note 2. Investments

The Conference has an agreement with the Foundation in which the Foundation acts as agent and investment manager of the Conference's investments. These investments are either directly invested or pooled by the Foundation into larger investment funds. The Foundation adheres to the Statement of Investment Guidelines adopted by the General Council of Finance and Administration of the United Methodist Church.

The Conference also maintains investments with Wespath, which are invested by Wespath in pooled investment funds. Wespath investments are comprised of approved investment instruments in accordance with the funds' objectives.

**Western North Carolina Conference
of the United Methodist Church and Subsidiary**

Notes to the Consolidated Financial Statements

Note 2. Investments (Continued)

The Conference's investments at December 31, 2017 and 2016, are as follows:

	2017	2016
Assets invested by the Foundation:		
Direct investments	\$ 8,471,288	\$ 6,144,151
Pooled investments	83,394,810	68,165,565
	<u>91,866,098</u>	<u>74,309,716</u>
Assets invested by Wespath:		
Pooled investments	440,546	330,532
	<u>\$ 92,306,644</u>	<u>\$ 74,640,248</u>

The Conference's 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 that such changes could materially affect the amounts reported in the statement of financial position.

Total investment return is comprised of the following for the years ended December 31, 2017 and 2016:

	2017	2016
Investment income, net of investment fees (2017 – \$390,372; 2016 – \$336,934)	\$ 1,439,189	\$ 1,206,906
Net gain on investments	9,156,584	4,527,686
	<u>\$ 10,595,773</u>	<u>\$ 5,734,592</u>

Note 3. Fair Value Measurements

Fair value measurements apply to all financial assets and liabilities that are being measured and reported on a fair value basis. GAAP establishes a framework for measuring the fair value of assets and liabilities and requires fair value measurements be classified and disclosed in one of the following three categories:

Level 1: Financial instruments with unadjusted, quoted prices listed on active market exchanges. The Conference's Level 1 financial instruments are comprised of cash and money market funds and certificates of deposit. At December 31, 2017 and 2016, these Level 1 investments totaled \$6,385,496 and \$4,421,724, respectively.

Level 2: Financial instruments determined using pricing inputs other than quoted prices in active markets, which are either directly or indirectly observable at the reporting date. Level 2 investments relate to a Clergy Debt Program administered by the Foundation. Interest rates utilized for loans made by the Foundation, under this program, were determined to approximate market rates. At December 31, 2017 and 2016, these Level 2 investments totaled \$2,085,792 and \$1,722,427, respectively.

Level 3: Financial instruments that are not actively traded on a market exchange and require using significant unobservable inputs for determining fair value. The inputs into the determination of fair value require significant judgment or estimation.

There have been no changes in the methodologies used at December 31, 2017 and 2016.

**Western North Carolina Conference
of the United Methodist Church and Subsidiary**

Notes to the Consolidated Financial Statements

Note 3. Fair Value Measurements (Continued)

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

Level 1 instruments carried at fair value, and Level 2 and Level 3 instruments carried at estimated fair value, are comprised of the following at December 31, 2017 and 2016:

	December 31, 2017	Fair Value Measurements at Reporting Date Using		
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Financial assets:				
Direct investments:				
Cash and money market funds	\$ 6,385,496	\$ 6,385,496	\$ -	\$ -
Clergy Debt Program	2,085,792	-	2,085,792	-
	8,471,288	\$ 6,385,496	\$ 2,085,792	\$ -
Investments measured at NAV (a)	83,835,356			
	<u>\$ 92,306,644</u>			

	December 31, 2016	Fair Value Measurements at Reporting Date Using		
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Financial assets:				
Direct investments:				
Cash and money market funds	\$ 4,371,724	\$ 4,371,724	\$ -	\$ -
Certificates of deposit	50,000	50,000	-	-
Clergy Debt Program	1,722,427	-	1,722,427	-
	6,144,151	\$ 4,421,724	\$ 1,722,427	\$ -
Investments measured at NAV (a)	68,496,097			
	<u>\$ 74,640,248</u>			

- (a) In accordance with Subtopic 820-10, certain investments that were measured at NAV per share (or its equivalent) as a practical expedient (see Note 4) have not been classified in the fair value hierarchy. The fair value amounts presented in this table are intended to permit reconciliation of the fair value hierarchy to the line items presented in the statements of financial position.

Changes in fair value levels: To assess the appropriate classification of investments within the fair value hierarchy, the availability of market data is monitored. Changes in economic conditions or valuation techniques may require the transfer of investments from one fair value level to another. In such instances, the transfer is reported at the beginning of the reporting period.

Management evaluates the significance of transfers between levels based upon the nature of the investment and size of the transfer relative to total net assets available for benefits. For the years ended December 31, 2017 and 2016, there were no significant transfers in or out of Levels 1, 2 or 3.

**Western North Carolina Conference
of the United Methodist Church and Subsidiary**

Notes to the Consolidated Financial Statements

Note 4. Net Asset Value (NAV)

The Conference's assets measured at NAV are held with the Foundation and Wespath under investment agreements wherein the investments are pooled into larger investment funds of the Foundation and Wespath. The following table sets forth additional disclosures of the Plan's investments whose fair value is estimated using the NAV per share (or its equivalent) practical expedient as of December 31, 2017 and 2016:

Investment	Fair Value December 31		Unfunded Commitment	Redemption Frequency	Other Redemption Restrictions	Redemption Notice Period
	2017	2016				
Commingled pool of assets:						
Assets invested by the Foundation:						
Balanced fund (a)	\$ 17,777,478	\$ 13,264,835	None	Daily	None	Daily
Conservative fund (b)	6,418,334	6,201,013	None	Daily	None	Daily
Diversified fund (c)	57,781,430	47,409,346	None	Daily	None	Daily
Development fund (d)	793,620	1,160,325	None	Daily	None	Daily
All-equity fund (e)	623,948	130,046	None	Daily	None	Daily
Assets invested by Wespath:						
Short-term investment fund (f)	304,485	215,209	None	Daily	None	Daily
Multiple asset fund (g)	136,061	115,323	None	Daily	None	Daily
Total	<u>\$ 83,835,356</u>	<u>\$ 68,496,097</u>				

- (a) Seeks to provide investment income while growing principal over the long-term by investing in a balanced portfolio of both stocks and bonds.
- (b) Seeks to preserve both invested principal and earned interest while minimizing the risk of loss of principal.
- (c) Seeks to attain current income and capital appreciation by investing in a broad mix of different types of investments with a long-term horizon. Investors should be willing to experience some fluctuations in the value of the fund, though not as much as from holding a fund comprised exclusively of common stocks.
- (d) Seeks to provide an investment alternative for those who are seeking the security of a fixed-type vehicle at competitive rates. The offering is made to individuals serving the United Methodist Church and church institutions that reside in North Carolina or South Carolina to finance Methodist institutions for building programs and other capital investments.
- (e) Seeks to attain long-term capital appreciation from a broadly diversified portfolio that includes both domestic and foreign common stocks. It is designed for investors who seek long-term investment growth through exposure to the broad domestic stock market as well as regulated foreign stock exchanges and who are willing to accept the risk of possible wide fluctuations in the unit price of the fund.
- (f) Seeks to maximize current income consistent with preservation of capital. This type of fund usually ranks low on the risk-return spectrum and is designed for low risk-tolerant institutional investors who are reluctant to risk the loss of any capital contributions or accumulated interest.
- (g) Seeks long-term investment growth and income from exposure to a broadly diversified portfolio. Balanced funds generally rank moderate to high on the risk-return spectrum. The fund is designed for investors with a relatively long-term horizon who are willing to experience some fluctuations in the value of the fund, though not as much as from holding a fund comprised exclusively of common stocks.

**Western North Carolina Conference
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Notes to the Consolidated Financial Statements

Note 5. Land, Building, Improvements and Equipment

The composition of land, building, improvements and equipment at December 31, 2017 and 2016, is as follows:

	2017	2016
Building and improvements	\$ 4,420,130	\$ 5,424,937
Furniture and equipment	1,322,169	1,316,552
Construction in progress	342,232	-
Land	1,416,785	758,823
	<u>7,501,316</u>	<u>7,500,312</u>
Less accumulated depreciation	3,571,360	3,964,790
	<u>\$ 3,929,956</u>	<u>\$ 3,535,522</u>

Depreciation expense was \$114,374 and \$122,305 for the years ended December 31, 2017 and 2016, respectively.

Note 6. Retirement Plans

Ministers Reserve Pension Fund: The Conference participates in the Ministers Reserve Pension Fund (MRPF), which is a multi-employer defined benefit pension plan administered by Wespath. The fund covers service prior to 1982 for substantially all clergy and lay pastors. For service subsequent to 1981, clergy members of the Conference are eligible to participate in the multi-employer retirement plans offered by The United Methodist Church as described below.

The Conference Board of Pension and Health Benefits acts as trustee responsible for deposits with Wespath. All assets of the plan are available to pay all benefits of the plan, regardless of the conference from which the contributions came or under which benefits were accrued. However, each conference controls certain benefit provisions of the plan and may choose to fund this plan using different funding methodologies. In the past, the Conference has chosen to fund the plan using the full actuarial allocation and is overfunded. Therefore, no contributions were made to this plan in 2017 and 2016, and the Conference's excess funding in this plan has been used to fund the benefits for the Clergy Retirement Security Program (CRSP) shown below. An actuarial report is available from Wespath that shows the funding requirements and funded status of all the conferences for the MRPF.

Because employers that contribute to multi-employer plans are responsible only to make the contributions called for and they do not have a directly identified or separate interest in investment gains or losses or administrative costs, nor do the employers have a directly identified or separate obligation for benefit payments, separate assets and liabilities for their portion of the plan are not recognized and the contributions are recognized as expense in the period in which they are paid.

**Western North Carolina Conference
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Notes to the Consolidated Financial Statements

Note 6. Retirement Plans (Continued)

Ministerial Pension Plan (MPP): U.S. bishops, Conference members and local pastors under Episcopal appointment are eligible for pension coverage under the MPP. The MPP is a multi-employer defined contribution plan which required the Conference to contribute 12% of each participant's compensation, subject to a limit on total compensation. This plan was frozen effective December 31, 2006; however, the Conference is required to make payments to the plan as needed. In 2010, the Conference established an investment account to fund the required payments to the MPP. As of December 31, 2017 and 2016, the investment account has a balance of \$4,805,942 and \$4,423,402, respectively. Payment to the MPP was not required during 2017 or 2016, although future payments toward the plan are possible. This plan was replaced by the CRSP described below.

Comprehensive Protection Plan (CPP): In addition to the MRPF described above, certain ministerial employees are provided disability and death benefits as well as certain minimum benefits related to pension coverage through participation in the CPP. The CPP is a multi-employer defined benefit pension plan administered by Wespath. A contribution of \$1,479,308 and \$1,453,915 was made for the plan years ended December 31, 2017 and 2016, respectively. These amounts are included in program disbursements in the consolidated statements of activities.

United Methodist Personal Investment Plan (UMPIP): Effective January 1, 2006, the Cumulative Pension and Benefit Fund and the Personal Investment Plan were merged to form the UMPIP. Conference clergy members, lay employees and local church personnel are eligible to participate in this multi-employer defined contribution plan administered by Wespath, which currently allows an employer contribution of up to 12%. The Conference contributes 9% of all eligible lay participants' compensation and 3% of clergy participants' plan compensation. Total contributions to the plan for the years ended December 31, 2017 and 2016, was \$285,807 and \$280,360, respectively. These amounts are included in management and general expense in the consolidated statements of activities.

Clergy Retirement Security Program (CRSP): Effective January 1, 2007, the Conference established the CRSP, which is a multi-employer defined benefit plan and a multi-employer defined contribution plan administered by Wespath. Clergy members and local pastors under Episcopal appointment to a conference, church, charge, district or conference-controlled entity or unit are eligible to participate. Effective January 1, 2014, clergy members and local pastors serving less than half-time are no longer eligible to participate, but will receive benefits accrued through December 31, 2013.

For the defined benefit plan, the contribution is based on a formula using the Denominational Average Compensation and the year of credited service beginning January 1, 2007. For the defined contribution plan, contributions are 2% of each eligible participant's compensation, with an additional match of up to 1% based on each participant's personal contributions.

During 2017 and 2016, the Conference was permitted to direct a portion of the overfunding in the MRPF plan to offset the required costs of the CRSP plan. The transfer from the MRPF of \$4,486,153 and \$4,383,411 in 2017 and 2016, respectively, has been reflected as nonoperating income on the consolidated statements of activities. The contributions to the CRSP plan are reflected in program disbursements in the consolidated statements of activities. Redirection of funds is not expected to take place for the year ending December 31, 2018.

**Western North Carolina Conference
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Notes to the Consolidated Financial Statements

Note 6. Retirement Plans (Continued)

Total contributions to the CRSP for the years ended December 31, 2017 and 2016, were as follows:

	2017	2016
Defined contribution plan, funded from the Conference	\$ 1,522,158	\$ 1,539,486
Defined benefit plan, funded from the Conference	-	-
Defined benefit plan, amounts allocated from the MRPF	4,486,153	4,383,411
	<u>\$ 6,008,311</u>	<u>\$ 5,922,897</u>

The Conference expects the annual contributions for all of the plans above to be approximately \$8 million a year. The total costs for the above benefit plans are generally billed to the churches of the Conference; however, any shortfalls are obligations of the Conference.

Note 7. Postretirement Health Benefit Plan

The Conference sponsors a multi-employer defined benefit postretirement health care plan for ministerial employees of its member churches and employees of the Conference. The plan is contributory, whereby the retiree contributions can be adjusted for increases in the cost of health care. The plan is unfunded.

The following table provides a reconciliation of the changes in the plan's accumulated postretirement health benefit obligation and fair value of plan assets for the years ended December 31, 2017 and 2016, and a statement of funded status at December 31, 2017 and 2016:

	2017	2016
Reconciliation of accumulated postretirement health benefit obligation:		
Accumulated postretirement health benefit obligation, beginning	\$ 14,629,723	\$ 15,990,325
Service cost for benefits earned during the year	591,029	684,347
Interest cost on accumulated postretirement health benefit obligation	576,289	669,280
Actuarial gain	(5,560,748)	(2,585,007)
Contributions by plan participants	956,184	1,101,190
Benefit payments	(1,114,031)	(1,230,412)
Accumulated postretirement health benefit obligation, ending	<u>10,078,446</u>	<u>14,629,723</u>
Reconciliation of fair value of plan assets:		
Fair value of plan assets, beginning	-	-
Employer contributions	157,847	129,222
Contributions by plan participants	956,184	1,101,190
Benefit payments	(1,114,031)	(1,230,412)
Fair value of plan assets, ending	<u>-</u>	<u>-</u>
Funded status, accumulated postretirement health benefit obligation in excess of plan assets	<u>\$ (10,078,446)</u>	<u>\$ (14,629,723)</u>

**Western North Carolina Conference
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Notes to the Consolidated Financial Statements

Note 7. Postretirement Health Benefit Plan (Continued)

The components of the net periodic postretirement health benefit net value (added) cost charged to expense for the years ended December 31, 2017 and 2016, consisted of the following:

	2017	2016
Service cost for benefits earned during the year	\$ 591,029	\$ 684,347
Interest cost on accumulated postretirement health benefit obligation	576,289	669,280
Amortization of net gain	(697,477)	(486,675)
Amortization of prior service benefit	-	(1,228,779)
Total net value (added) cost	<u>\$ 469,841</u>	<u>\$ (361,827)</u>
Amounts recognized in postretirement changes other than net periodic postretirement health benefit costs:		
Actuarial gain for current year	\$ 5,560,748	\$ 2,585,007
Amortization of actuarial gain	(697,477)	(486,675)
Amortization of prior service benefit	-	(1,228,779)
Postretirement changes other than net periodic postretirement health benefit costs	<u>\$ 4,863,271</u>	<u>\$ 869,553</u>
Amounts recognized in unrestricted net assets but not yet recognized as components of net periodic postretirement health benefit costs:		
Unamortized prior service benefit	\$ -	\$ (1,228,779)
Unamortized actuarial gain	(14,556,475)	(9,693,204)
	<u>\$ (14,556,475)</u>	<u>\$ (10,921,983)</u>
Amount in unrestricted net assets expected to be recognized in net periodic postretirement health benefit costs in 2018:		
Net actuarial gain	<u>\$ (1,145,277)</u>	

The actuarial gain in 2017 is due primarily to favorable demographic and claims experience during 2017 along with per-capita cost updates to reflect actual historical experience. The discount rate has been updated from 4.00% to 3.75%, and the mortality table has been updated to the RP-2014, modified with Scale MP-2017, projected generationally.

**Western North Carolina Conference
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Notes to the Consolidated Financial Statements

Note 7. Postretirement Health Benefit Plan (Continued)

The following benefit payments, which reflect expected future service, are expected to be paid by the Conference in future years:

Years ending December 31:		
2018	\$	201,319
2019		200,964
2020		201,379
2021		197,102
2022		181,679
2023-2027		712,348

The accumulated postretirement health benefit obligation was computed using an assumed discount rate of 3.75% and 4.00% for 2017 and 2016, respectively. The actuarial assumptions relating to health care trend rates are evaluated for participants over 65 years of age and under 65 years of age separately. The under-65 healthcare trend rate was assumed to be 11% for 2017, and is assumed to decline by 1% during 2018, then decline by 0.50% beginning in 2019 until reaching 5% in 2028, and remaining level thereafter. The over-65 healthcare trend rate was assumed to be 5.00% for 2017 and is assumed to remain level going forward.

Assumed health care rates have a significant effect on the amounts reported for the plan. A 1% change in assumed health care cost trend rates would have the following effect:

	1% Decrease	1% Increase
Effect on total service and interest cost components	\$ (207,436)	\$ 281,647
Effect on the accumulated postretirement health benefit obligation	(2,100,775)	2,853,676

As of December 31, 2017 and 2016, the Conference has approximately \$9,162,000 and \$7,891,000, respectively, designated by the Board to be used for payment of future net periodic postretirement health benefit costs. Any changes in the plan or revisions to assumptions that affect the amount of expected future benefits may have a significant effect on the amount of the reported obligation and future annual expense.

**Western North Carolina Conference
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Notes to the Consolidated Financial Statements

Note 8. Unrestricted Net Assets

Unrestricted net assets include amounts that have been designated by the Board of Trustees, Conference Board of Pension and Health Benefits and Council on Finance and Administration for specific purposes and other amounts that are unavailable for operational use by the Conference. As of December 31, 2017 and 2016, the Board of Trustees, Board of Pension and Health Benefits and Council on Finance and Administration have designated amounts for the following purposes:

	2017	2016
Church vitality	\$ 1,692,682	\$ 823,082
Pension and health benefits	32,335,999	29,508,079
Property maintenance and acquisition	2,777,727	930,154
Program ministries	2,289,650	1,360,462
	<u>\$ 39,096,058</u>	<u>\$ 32,621,777</u>

Note 9. Temporarily Restricted Net Assets

Temporarily restricted net assets at December 31, 2017 and 2016, are available for the following purposes:

	2017	2016
Transition into ministry	\$ 26,241	\$ 44,320
Church vitality	356,042	511,899
Retired ministers and their spouses	1,103,880	899,350
Disaster relief	62,236	62,236
Program ministries	1,420,633	1,049,348
Property maintenance and acquisition	24,502	20,622
Time restricted	109,935	112,710
	<u>\$ 3,103,469</u>	<u>\$ 2,700,485</u>

Note 10. Permanently Restricted Net Assets

Permanently restricted net assets at December 31, 2017 and 2016, are available for the following purposes:

	2017	2016
Investment in perpetuity, the income from which is expendable to support:		
Church vitality	\$ 329,441	\$ 817,914
Retired ministers and their spouses	507,327	507,327
	<u>\$ 836,768</u>	<u>\$ 1,325,241</u>

**Western North Carolina Conference
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Notes to the Consolidated Financial Statements

Note 11. Net Assets Released From Restrictions

During the years ended December 31, 2017 and 2016, net assets were released from donor restrictions by incurring expenses satisfying the restricted purposes or by occurrence of other events specified by donors.

	2017	2016
Transition into ministry	\$ 18,079	\$ 134,300
Church vitality	437,080	455,581
Retired ministers and their spouses	3,789	3,778
Disaster relief	-	21,128
Program ministries	1,692,040	818,432
Property maintenance	200	511,140
	<u>\$ 2,151,188</u>	<u>\$ 1,944,359</u>

Note 12. Endowment

The Conference's endowment consists of seven individual funds established for a variety of purposes. Its endowment includes both donor-restricted endowment funds and funds designated by the Conference to function as endowments. As required by GAAP, net assets associated with endowment funds, including funds designated by the Conference to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions.

Interpretation of relevant law: The Conference has interpreted the North Carolina enacted version of the Uniform Prudent Management of Institutional Funds Act (NC UPMIFA) as requiring the preservation of the corpus of the original gift. As a result of this interpretation, the Conference classifies as permanently restricted net assets: (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulations are added to the fund. The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the Conference in a manner consistent with the standard of prudence prescribed by NC UPMIFA. In accordance with NC UPMIFA, the Conference considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

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

**Western North Carolina Conference
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Notes to the Consolidated Financial Statements

Note 12. Endowment (Continued)

Endowment net composition by type of fund as of December 31, 2017 and 2016, is as follows:

	2017			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted endowment funds	\$ -	\$ 653,755	\$ 836,768	\$ 1,490,523
Board designated endowment funds	32,335,999	664,075	-	33,000,074
	<u>\$ 32,335,999</u>	<u>\$ 1,317,830</u>	<u>\$ 836,768</u>	<u>\$ 34,490,597</u>

	2016			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted endowment funds	\$ -	\$ 588,853	\$ 1,325,241	\$ 1,914,094
Board designated endowment funds	29,508,079	779,649	-	30,287,728
	<u>\$ 29,508,079</u>	<u>\$ 1,368,502</u>	<u>\$ 1,325,241</u>	<u>\$ 32,201,822</u>

Changes in endowment net assets for the years ended December 31, 2017 and 2016, are as follows:

	2017			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, beginning of year	\$ 29,508,079	\$ 1,368,502	\$ 1,325,241	\$ 32,201,822
Investment return:				
Investment income	548,262	35,006	-	583,268
Net appreciation (realized and unrealized)	3,765,597	287,646	-	4,053,243
Total investment return	4,313,859	322,652	-	4,636,511
Appropriation of endowment assets for expenditure	(1,485,939)	(21,219)	-	(1,507,158)
Other changes:				
Transfers from endowment	-	(352,105)	(488,473)	(840,578)
Endowment net assets, end of year	<u>\$ 32,335,999</u>	<u>\$ 1,317,830</u>	<u>\$ 836,768</u>	<u>\$ 34,490,597</u>

**Western North Carolina Conference
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Notes to the Consolidated Financial Statements

Note 12. Endowment (Continued)

	2016			Total
	Unrestricted	Temporarily Restricted	Permanently Restricted	
Endowment net assets, beginning of year	\$ 26,976,632	\$ 985,250	\$ 1,325,241	\$ 29,287,123
Investment return:				
Investment income	527,910	44,424	-	572,334
Net appreciation (realized and unrealized)	2,036,571	183,569	-	2,220,140
Total investment return	2,564,481	227,993	-	2,792,474
Appropriation of endowment assets for expenditure	(33,034)	(44,741)	-	(77,775)
Other changes:				
Contributions	-	200,000	-	200,000
Endowment net assets, end of year	\$ 29,508,079	\$ 1,368,502	\$ 1,325,241	\$ 32,201,822

During 2017, the Conference reviewed and determined, in connection with legal counsel, that a previously recorded gift from a donor was incorrectly classified as a permanently restricted net asset. The original amount of the gift and the accumulated earnings were transferred from endowed net assets to non-endowed temporarily restricted net assets per the Conference's interpretation of the donor's intent based on review of the gift instrument.

Return objectives and risk parameters: The Conference has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment while seeking to maintain the purchasing power of the endowment assets. Endowment assets include those assets of donor-restricted funds that the Conference must hold in perpetuity or for a donor-specified period(s) as well as board designated funds. Under this policy, as approved by the Conference, the endowment assets are invested in a manner that is intended to produce results that exceed the price and yield results of the S&P 500 index while assuming a moderate level of investment risk. The Conference expects its endowment funds, over time, to provide an average rate of return of approximately 5% annually. Actual returns in any given year may vary from this amount.

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

Spending policy and how the investment objectives relate to spending policy: The Conference has a policy of appropriating for distribution each year 4% of its endowment fund's average fair value over the prior 12 quarters through the calendar year end preceding the fiscal year in which the distribution is planned. In establishing this policy, the Conference considered the long-term expected return on its endowment. Accordingly, over the long term, the Conference expects the current spending policy to allow its endowment to grow at an average of 1% annually. This is consistent with the Conference's objective to maintain the purchasing power of the endowment assets held in perpetuity or for a specified term as well as to provide additional real growth through new gifts and investment return.

**Western North Carolina Conference
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Notes to the Consolidated Financial Statements

Note 13. Lease Commitments

The Conference leases equipment and office space under noncancelable operating leases, which expire through November 2022. Minimum annual rentals range from approximately \$900 to \$36,400. Total rent expense was \$111,725 and \$114,164 for the years ended December 31, 2017 and 2016, respectively.

Future minimum rental commitments for all noncancelable leases at December 31, 2017, are as follows:

Years ending December 31:	
2018	\$ 108,115
2019	73,359
2020	67,922
2021	55,097
2022	45,914
	<u>\$ 350,407</u>

Note 14. Abandoned or Discontinued Property

When a member church is abandoned or discontinued, the deed is transferred from the church's Board of Trustees to the Conference's Board of Trustees. The properties are recorded by the Conference at the lower of the carrying amount or fair value. As there is generally no carrying value and the fair market value of the properties is not easily estimated when abandoned, the properties are recorded by the Conference at a value of \$0. When sold, the Conference will normally utilize 25% of the net proceeds for church vitality and utilize the remaining amount for church vitality in the applicable district in the area where the church was sold.

Note 15. Unconsolidated Constituent Ministry

GAAP requires the Conference to consolidate entities in which it has control and an economic interest, when that control is evidenced through majority ownership or voting interests. Because the Conference has an economic interest in and control of a constituent through means other than majority ownership or voting interests, consolidation is permitted, but not required. Therefore, the Conference has elected not to consolidate the constituent as described below.

The non-consolidated constituent is the Foundation, a not-for-profit organization providing various investment management services for its clients, which consist of the Conference and United Methodist churches, institutions and agencies in Western North Carolina. The primary purpose of the Foundation is to act as an agent to provide professional investment management services to its clients. According to the statement of relationship between the Conference and the Foundation, the organizations have similar purposes and interests but are separate, self-governing associations.

The Foundation has assets of approximately \$227,935,000 and \$179,880,000 as of December 31, 2017 and 2016, respectively. Of those assets, approximately \$203,568,000 and \$161,000,000 are investments. See Note 2 for the Conference's portions of those investments.

**Western North Carolina Conference
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Notes to the Consolidated Financial Statements

Note 15. Unconsolidated Constituent Ministry (Continued)

The summary financial information does not eliminate the transactions between the Conference and the constituent, such as investment activity with the Foundation and contributions from the Conference to the Foundation, if any.

The Conference is also affiliated with a significant number of related ministries through its connection with the United Methodist Church. The Conference has signed a statement of relationship with other entities that defines this connectional relationship and states that neither entity may require the other entity to assume any contractual, financial or other obligation. The Conference does not have control of or a financial interest in these affiliated entities. Grants and operating support provided to these entities totaled approximately \$602,000 and \$608,000 for the years ended December 31, 2017 and 2016, respectively. These entities provided contributions to the Conference totaling approximately \$222,000 and \$178,000 for the years ended December 31, 2017 and 2016, respectively.

B. 2019 COMPREHENSIVE BENEFIT FUNDING PLAN SUMMARY

INTRODUCTION

The 2016 *Book of Discipline* ¶ 1506.6 requires that each annual conference develop, adopt and implement a formal comprehensive funding plan for funding all of its benefit obligations. The funding plan shall be submitted annually to Wespath Benefits and Investments (Wespath) for review and be approved annually by the annual conference, following the receipt and inclusion of a favorable written opinion from Wespath. This document is only a summary of the information contained in the actual signed funding plan and does not contain all the information required for a comprehensive view of the conference's benefit obligations. You may request the full contents of the 2019 comprehensive benefit funding plan from your conference benefit office.

CLERGY RETIREMENT SECURITY PROGRAM (CRSP)

Defined Benefit (DB) and Defined Contribution (DC)

Program overview:

The Clergy Retirement Security Program (CRSP) is an Internal Revenue Code section 403(b) retirement program providing lifetime income and account flexibility designed for those who serve as clergy of The United Methodist Church. The program is designed to provide participants with one portion of their overall retirement benefits. CRSP replaced the Ministerial Pension Plan (MPP) effective January 1, 2007, which had previously replaced the Pre 82 Plan for service rendered prior to January 1, 1982.

CRSP consists of both a defined benefit (DB) plan, which provides a monthly benefit at retirement based upon years of credited service to The United Methodist Church, and a defined contribution (DC) plan, which provides a retirement account balance established and funded by the annual conferences.

Current funding plan information:

The Clergy Retirement Security Program (CRSP DB) annuities total liability as of January 1, 2017, is \$1,588,243,217, while total plan assets are \$1,700,835,563, resulting in a current plan funded ratio of 107%. The Western North Carolina Conference portion of the liability is 3.9237% and the 2019 contribution is \$4,209,240. The conference anticipates that the amount will be funded by the CRSP DB Fund. Additionally, General Conference 2012 approved a change to CRSP that provides each annual conference the discretion to determine whether to cover three quarter and/or half time clergy. The Western North Carolina Conference has elected to cover clergy serving 50%+ under CRSP effective January 1, 2019.

Effective January 1, 2014, the CRSP DC plan was reduced from a 3% to a 2% of plan compensation non matching contribution. Clergy can earn up to an additional 1% CRSP DC contribution by contributing at least 1% of their plan compensation to UMPIP; therefore, if a participant contributes at least 1% of plan compensation to UMPIP, the individual will receive a contribution of 3% to CRSP DC. The 2019 CRSP DC contribution is anticipated to be \$1,549,471 and will be funded by direct billing.

MINISTERIAL PENSION PLAN (MPP)

Plan overview:

Supplement Three to the Clergy Retirement Security Program (CRSP), also known as the Ministerial Pension Plan (MPP), provides clergy with a pension benefit for their years of ministry with The United Methodist Church from 1982 through 2006. MPP is an Internal Revenue Code section 403(b) retirement plan. MPP requires that exactly 65% of the account balance must be annuitized when the funds are to be distributed. The remainder may be rolled over to UMPIP, another qualified plan or an IRA, or it may be paid in a lump sum.

Current funding plan information:

The Ministerial Pension Plan (MPP) annuities' total liability as of January 1, 2017 is \$3,532,916,942, while total plan assets are \$3,701,460,997, resulting in a current plan funded ratio of 105%. The required contribution for 2019 is zero. The Western North Carolina Conference's percentage of the total liability is 2.8623%. Future MPP annuitants have a total account balance of \$3,689,292,322 and the Western North Carolina Conference's portion of that balance is \$149,151,218 or 4.04% of the total.

PRE 82 PLAN

Plan overview:

Supplement One to the Clergy Retirement Security Program (CRSP), also known as the Pre 82 Plan, provides clergy with a pension benefit for their years of ministry with The United Methodist Church prior to 1982. The Pre 82 Plan was replaced by MPP effective January 1, 1982. If a clergyperson retires within the Conference (and does not terminate), the minimum benefit payable is based on two factors:

- 1) Years of service with pension credit approved by each conference on the recommendation of the Conference Board of Pensions (CBOP) in accordance with plan provisions and *The Book of Discipline*.
- 2) The conference pension rate (past service rate) the dollar amount chosen by the conference as the amount payable for each approved year of service with pension credit (may change from year to year).

The number of years of service with pension credit is multiplied by the pension rate, and the product is the minimum annual benefit payable to those clergy eligible for Pre 82 Plan benefits. In certain situations, the benefit received from the Pre 82 plan may vary based on the applicability of what is referred to as Defined Benefit Service Money (DBSM), which is the defined contribution feature of the Pre 82 Plan. At the time that a participant retires, the DBSM account is converted to a life based benefit and, at that point, the clergy's benefit is the greater of the PSR or DBSM benefit. If the conference increases the PSR, the clergy's benefit is recalculated; but the DBSM based benefit does not change.

Current funding plan information:

The 2019 PSR recommended to the Western North Carolina Conference will be \$790, representing a 2% increase from the 2018 rate. The conference expects future annual increases to be approximately 2.00%.

The contingent annuitant percentage is recommended to remain at the 70% level.

ACTIVE HEALTH BENEFIT PROGRAM

Program Overview

The Western North Carolina Conference offers the following active health benefit to its active eligible participants: Self-Funded - Non HealthFlex.

Current funding plan information:

The total cost of the program for 2019 is anticipated to be \$11,969,810 and will be funded by Direct Billing. It is anticipated that increases for future years will average 3.00%.

Claims Incurred But Not Reported (if applicable)

The Western North Carolina Conference provides the following health plan to its eligible participants: Self-Funded - Non HealthFlex. As of 12/31/2019, the estimated IBNR claims total is \$837,887. It is anticipated that increases for future years will average 3.00%. It is anticipated that the IBNR claims, if applicable, will be funded by billed premiums and premium reserves, as needed.

Additional Plan Sponsor Funded Coverage (if applicable)

The Western North Carolina Conference has elected to provide health benefits coverage to the following groups during periods where without plan sponsor funded premiums the participants would not be provided coverage or benefits (all figures as of 12/31/2017):

1. Clergy or Lay On Disability (Including Pending Disability): 30 participants at an estimated cost of \$297,000.

The projected annual cost as of 12/31/2019 for additional plan sponsor funded coverage is \$315,087.

POST RETIREMENT MEDICAL BENEFIT PROGRAM (PRM)

Program Overview:

The Western North Carolina Conference currently offers Self-funded for Post-Retirement Medical coverage.

Current funding plan information:

The plan sponsor's intention for 2019 is to retain current plan benefit. PRM benefits provided are as follows:

Based on the most recent PRM valuation dated 01/01/2018, the following is the funded position of the PRM benefits:

1. Expected Post Retirement Obligation (EPBO) net plan sponsor cost..... \$9,877,127
2. Accumulated Post Retirement Obligation (APBO) net plan sponsor cost\$10,078,446
3. Assets (in plan and outside) designated for PRM \$0
4. Service cost (SC) net plan sponsor cost \$591,029
5. Unfunded APBO, [3. 2.] \$(10,078,446)
6. Number of annual payments 20
7. Portion of unfunded APBO, [5. / 6.] \$503,922
8. Ongoing funding contribution, [4. + 7.] \$1,094,951

Future increases/decreases to the assets or APBO will be funded over the duration of the program as calculated in the PRM valuation report, or five years if not available.

These values are based on a 3.75% long term discount rate, a 4.00% long term expected rate of return on assets, and a valuation year medical trend (inflation rate) of 5.00% with an ultimate medical trend (inflation rate) of 5.00%, beginning in 2028.

In addition to the PRM funding contribution listed above, the projected annual plan benefit cost for 2019 (subsidies, HRAs, claims or premiums) is \$1,066,341.

COMPREHENSIVE PROTECTION PLAN (CPP)

Plan Overview:

The Comprehensive Protection Plan (CPP) provides death, long term disability and other welfare benefits for eligible clergy of The United Methodist Church and their families. It is an Internal Revenue Code 414(e) "church plan" funded by plan sponsor insurance premiums. Generally, clergy are eligible to participate in CPP if they satisfy the eligibility requirements, including full time appointment with plan compensation of at least 25% of the Denominational Average Compensation (DAC). Plan sponsors may elect to cover participants with three quarter time appointments and/or to continue to cover clergy who, due to certain leaves or appointments, are not otherwise eligible to continue coverage.

The CPP adoption agreement executed by the Western North Carolina Conference contains its elections to cover or not to cover categories mentioned above.

Current funding plan information:

For 2019, the Western North Carolina Conference has an expected required contribution to the Comprehensive Protection Plan of \$1,485,000, which is anticipated to be funded by direct billing to local churches. The anticipated average increase in future years is expected to be 1.00% per year due to declining number of full time clergy and minimal salary increases overall.

UNITED METHODIST PERSONAL INVESTMENT PLAN (UMPIP) FOR LAY AND CLERGY

Plan Overview:

The United Methodist Personal Investment Plan (UMPIP) is an Internal Revenue Code section 403(b) defined contribution retirement savings plan for clergy and lay employees of The United Methodist Church and affiliated organizations. Participants may make before tax, Roth and/or after tax contributions through payroll deductions. Participant contributions, various optional plan sponsor contributions and investment earnings comprise the individual's retirement account balance.

Current funding plan information:

Conference office lay employees working an average of 20 hours per week or more are eligible after 12 months for a plan sponsor funded pension contribution of 9% of salary. Lay employees are encouraged to make contributions toward their retirement through payroll deductions to the UMPIP. The conference's estimated contribution for 2019 is \$206,809 and will be funded by conference apportionments.

OTHER DEFINED CONTRIBUTION (DC) OBLIGATIONS

Plan Overview:

The Western North Carolina currently offers the following DC benefit(s): Supplemental Life Insurance for Clergy and Conference staff. The estimated contribution for 2019 is \$45,800 with the funding sources to be: Direct Billing. The anticipated average increase in future years is expected to be 0.00% per year due to the number of pastors declining. There could be a small decrease; however, we have received no word on any anticipated increases in premiums for these supplement life policies.

Plan Overview:

The Western North Carolina currently offers the following DC benefit(s): Ministers Moving Allowance provides moving expenses. The estimated contribution for 2019 is \$140,000 with the funding sources to be conference apportionments. The anticipated average increase in future years is expected to be 0.00% per year due to trending indicates less demand on funds due to dwindling number of clergy.

CONCLUSION

The 2019 Comprehensive Benefit Funding Plan and this summary document incorporates, to the best of our understanding, the Western North Carolina's obligations and funding requirements of the benefits provided to the clergy and laity of the Western North Carolina Conference.

