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, 2018

Contents

RSM

RSM US LLP

Independent Auditor's Report

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

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, 2018 and 2017, the related consolidated statements of activities, and cash flows for the years then ended, the related consolidated statement of functional expenses for the year ended December 31, 2018 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, 2018 and 2017, 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
July 26, 2019

Western North Carolina Conference
of the United Methodist Church and Subsidiary

Consolidated Statements of Financial Position
December 31, 2018 and 2017

	2018	2017
Assets		
Cash	$ 6,472,783	$ 4,276,328
Accounts receivable	3,284,571	3,860,811
Assets held for others	211,076	355,377
Investments	75,015,760	92,306,644
Notes receivable	547,732	338,291
Prepaid expenses and other assets	873,556	992,608
Inventory	929,295	740,058
Land, building, improvements and equipment, net	9,100,557	3,929,956
Total assets	$ 96,435,330	$ 106,800,073
Liabilities and Net Assets		
Liabilities:		
Accounts payable and accrued expenses	$ 1,730,065	$ 1,444,440
Agency liabilities	211,076	355,377
Liability for amounts held in trust	167,363	184,893
Deferred grant revenue	302,765	542,814
Accrued health benefits	817,161	923,701
Accrued postretirement health benefit obligation	9,692,096	10,078,446
Total liabilities	12,920,526	13,529,671
Net assets:		
Without donor restrictions:		
Board designated	32,772,171	39,096,058
Investment in land, building, improvements and equipment	9,100,557	3,929,956
Undesignated	37,766,378	46,304,151
	79,639,106	89,330,165
With donor restrictions	3,875,698	3,940,237
Total net assets	83,514,804	93,270,402
	$ 96,435,330	$ 106,800,073

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, 2018 and 2017

	2018		
	Without Donor Restrictions	With Donor Restrictions	Total
Revenues, gains and other support:			
Apportionment income	$ 16,029,283	$ -	$ 16,029,283
Premium income	11,992,224	-	11,992,224
Pension direct invoicing	5,325,078	-	5,325,078
Contributions	1,919,754	1,311,079	3,230,833
Grants	1,300,272	28,869	1,329,141
Investment income	2,101,415	48,597	2,150,012
Gain on sale of closed churches and properties	2,256,164	-	2,256,164
Net assets released from restrictions	1,226,056	(1,226,056)	-
Total revenues, gains and other support	42,150,246	162,489	42,312,735
Expenses:			
Grants	2,730,047	-	2,730,047
Program disbursements	13,024,280	-	13,024,280
Management and general	8,068,090	-	8,068,090
Health benefit claims	14,358,706	-	14,358,706
Annual conference	101,220	-	101,220
Conference center	214,777	-	214,777
General church expenses	6,007,933	-	6,007,933
Total expenses	44,505,053	-	44,505,053
(Decrease) increase in net assets from operating activities	(2,354,807)	162,489	(2,192,318)
Nonoperating:			
Net (loss) gain on investments	(6,942,824)	(227,028)	(7,169,852)
Postretirement changes other than net periodic postretirement health benefit costs	(202,250)	-	(202,250)
Allocation from Ministers Reserve Pension Fund	-	-	-
(Loss) gain on sale or disposal of building, improvements and equipment	(191,178)	-	(191,178)
Net assets released from restrictions	-	-	-
Total nonoperating (losses) gains	(7,336,252)	(227,028)	(7,563,280)
Change in net assets	(9,691,059)	(64,539)	(9,755,598)
Net assets, beginning	89,330,165	3,940,237	93,270,402
Net assets, ending	$ 79,639,106	$ 3,875,698	$ 83,514,804

See notes to consolidated financial statements.

2017		
Without Donor Restrictions	With Donor Restrictions	Total
$ 16,292,847	$ -	$ 16,292,847
11,469,835	-	11,469,835
5,747,429	-	5,747,429
1,154,272	1,712,043	2,866,315
1,680,633	30,969	1,711,602
1,398,585	40,604	1,439,189
1,237,985	-	1,237,985
1,523,657	(1,523,657)	-
40,505,243	259,959	40,765,202
2,345,596	-	2,345,596
10,794,675	-	10,794,675
9,501,224	-	9,501,224
14,520,788	-	14,520,788
82,914	-	82,914
136,508	-	136,508
4,448,758	-	4,448,758
41,830,463	-	41,830,463
(1,325,220)	259,959	(1,065,261)
8,874,501	282,083	9,156,584
4,863,271	-	4,863,271
4,486,153	-	4,486,153
451,771	-	451,771
627,531	(627,531)	-
19,303,227	(345,448)	18,957,779
17,978,007	(85,489)	17,892,518
71,352,158	4,025,726	75,377,884
$ 89,330,165	$ 3,940,237	$ 93,270,402

Western North Carolina Conference of the United Methodist Church and Subsidiary

Consolidated Statements of Cash Flows
Years Ended December 31, 2018 and 2017

	2018	2017
Cash flows from operating activities:		
Change in net assets	$ (9,755,598)	$ 17,892,518
Adjustments to reconcile change in net assets to net cash (used in) provided by operating activities:		
Depreciation	265,022	114,374
Net loss (gain) on investments	7,169,852	(9,156,584)
Postretirement-related changes other than net periodic postretirement health benefit cost	202,250	(4,863,271)
Gain on sale or disposal of property and buildings, improvements and equipment	(2,064,986)	(451,771)
Changes in assets and liabilities:		
(Increase) decrease in:		
Accounts receivable	576,240	(621,063)
Prepaid expenses and other assets	119,052	(803,529)
Inventory	(189,237)	(422,003)
Increase (decrease) in:		
Accounts payable and accrued expenses	285,625	309,902
Liability for amounts held in trust	(17,530)	(56,801)
Deferred grant revenue	(240,049)	(130,554)
Accrued health benefits	(106,540)	216,026
Accrued postretirement health benefit obligation	(588,600)	311,994
Net cash (used in) provided by operating activities	(4,344,499)	2,339,238
Cash flows from investing activities:		
Purchase of improvements and equipment	(5,626,801)	(1,037,811)
Purchase of investments	(15,387,733)	(14,811,643)
Proceeds from sale of investments	25,508,765	6,301,831
Proceeds from sale of property	2,256,164	980,774
Proceeds from notes receivable	10,559	574,762
Issuance of notes receivable	(220,000)	(27,342)
Net cash provided by (used in) investing activities	6,540,954	(8,019,429)
Net increase (decrease) in cash	2,196,455	(5,680,191)
Cash:		
Beginning	4,276,328	9,956,519
Ending	$ 6,472,783	$ 4,276,328

See notes to consolidated financial statements.

Western North Carolina Conference
of the United Methodist Church and Subsidiary

Consolidated Statement of Functional Expenses
December 31, 2018

	Programs					Supporting Services			
	Grants	Program Disbursements	Annual Conference	Conference Center	Programs Subtotal	General Church Expenses	Health Benefit Claims	Management and General	Total
Annual conference	$ -	$ 34,073	$ 87,206	$ -	$ 121,279	$ -	$ -	$ 497	$ 121,776
Building maintenance	-	-	-	45,061	45,061	-	-	147,232	192,293
Depreciation	-	-	-	-	-	-	-	265,022	265,022
Employee benefits	-	-	-	-	-	-	-	343,894	343,894
General church expenses	-	188,620	-	-	188,620	6,007,933	-	2,962	6,199,515
Grants	2,730,047	234,684	-	-	2,964,731	-	21,243	105,283	3,091,257
Housing	-	567,535	-	-	567,535	-	-	-	567,535
Insurance	-	-	-	51,547	51,547	-	-	22,688	74,235
Meetings and events	-	53,791	11,764	-	65,555	-	19,798	-	85,353
Office equipment	-	-	-	18,729	18,729	-	-	114,961	133,690
Payroll taxes	-	-	-	-	-	-	-	258,476	258,476
Postage	-	-	2,250	-	2,250	-	-	37,286	39,536
Program disbursements	-	2,850,404	-	-	2,850,404	-	-	29,200	2,879,604
Rent	-	-	-	1,370	1,370	-	-	87,828	89,198
Salaries	-	2,862,102	-	-	2,862,102	-	130,931	1,039,515	4,032,548
Supplies	-	48,619	-	5,943	54,562	-	-	76,946	131,508
Travel	-	158,405	-	-	158,405	-	-	147,374	305,779
Utilities	-	-	-	35,501	35,501	-	-	35,075	70,576
Interest expense	-	-	-	-	-	-	-	8,987	8,987
Equipment repairs and maintenance	-	-	-	-	-	-	-	11,855	11,855
Health benefit claims	-	-	-	-	-	-	13,581,888	414,787	13,996,675
Information systems, software and internet	-	-	-	-	-	-	-	111,507	111,507
Legal and professional fees	-	3,200	-	22,920	26,120	-	-	1,365,016	1,391,136
Miscellaneous disbusrements	-	185,942	-	-	185,942	-	-	595,559	781,501
Other miscellaneous expenses	-	7,274	-	4,975	12,249	-	-	227,163	239,412
Pension benefits expense	-	5,829,631	-	-	5,829,631	-	604,846	2,355,162	8,789,639
Printing and copier expense	-	-	-	-	-	-	-	5,595	5,595
Telecommunications expense	-	-	-	28,731	28,731	-	-	94,366	123,097
Vehicle lease and maintenance	-	-	-	-	-	-	-	97,309	97,309
Website development and support	-	-	-	-	-	-	-	66,545	66,545
	$ 2,730,047	$ 13,024,280	$ 101,220	$ 214,777	$ 16,070,324	$ 6,007,933	$ 14,358,706	$ 8,068,090	$ 44,505,053

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 consolidated statements 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. This entity was a previously unconsolidated constituent ministries prior to being merged into the Conference. As this organization was affiliated with the Conference, the net assets of the organization were transferred to the Conference at net book value. This transfer was immaterial to the Conference's consolidated financial statements.

Accounting principles generally accepted in the United States of America (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. 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 14.

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:

Net assets without donor restrictions: Net assets that are not subject to donor-imposed stipulations. The Conference may designate net assets without donor restrictions for working capital at its discretion.

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)

Net assets with donor restrictions: Net assets subject to donor-imposed stipulations that may or will be met either by actions of the Conference and/or the passage of time.

Revenues are reported as increases in net assets without donor restrictions unless use of the related assets is limited by donor-imposed restrictions. Expenses are reported as decreases in net assets without donor restrictions. Gains and losses on investments and other assets or liabilities are reported as increases or decreases in net assets without donor restrictions unless their use is restricted by explicit donor stipulation or by law.

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 are recognized as restricted support if they are pledged or received with donor stipulations that limit the use of the donation. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the consolidated statements of activities as net assets released from donor restrictions. Donor-restricted contributions whose restrictions are met in the same reporting period are reported as net asses without donor restrictions. 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.

Assets held for others: The Conference is due apportionments and 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.

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.

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)

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, 2018, $194,783 is due within one year and the remaining $352,949 is due through 2036. Interest of 2% to 6.4% annually is paid on the long-term balance. Interest income was approximately $14,000 and $16,000 for the years ended December 31, 2018 and 2017, 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 and money market funds, 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 11).

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:

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

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.

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 (loss) on investments, postretirement changes other than net periodic postretirement health benefit costs and significant items of an unusual or nonrecurring nature.

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)

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, 2018) through July 26, 2019, 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)*, to supersede nearly all existing revenue recognition guidance under GAAP. The core principle of ASU 2014-09 is to recognize revenues when promised goods or services are transferred to customers in an amount that reflects the consideration to which an entity is expected to be entitled for those goods or services. ASU 2014-09 defines a five-step process to achieve this core principle and, in doing so, more judgment and estimates may be required within the revenue recognition process than required under existing GAAP, including identifying performance obligations in the contract, estimating the amount of variable consideration to include in the transaction price and allocating the transaction price to each performance obligation. ASU 2014-09, as deferred one year by ASU 2015-14, will be effective for annual reporting periods beginning after December 15, 2018, using either of two methods: (a) retrospective to each prior reporting period presented with the option to elect certain practical expedients as defined within ASU 2014-09; or (b) retrospective with the cumulative effect of initially applying ASU 2014-09 recognized at the date of initial application and providing certain additional disclosures as defined in ASU 2014-09. The Conference is currently in the process of evaluating the effect this guidance will have on its consolidated financial statements and related disclosures.

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 February 2016, the FASB issued ASU 2016-02, *Leases (Topic 842),* which sets out the principles for the recognition, measurement, presentation and disclosure of leases for both parties to a contract (i.e., lessees and lessors). The new standard requires lessees to apply a dual approach, classifying leases as either finance or operating leases based on the principle of whether or not the lease is effectively a financed purchase by the lessee. This classification will determine whether lease expense is recognized based on an effective interest method or on a straight-line basis over the term of the lease, respectively. A lessee is also required to record a right-of-use asset and a lease liability for all leases with a term of greater than 12 months regardless of their classification. Leases with a term of 12 months or less will be accounted for similar to existing guidance for operating leases today. The new standard requires lessors to account for leases using an approach that is substantially equivalent to existing guidance for sales-type leases, direct financing leases and operating leases. The Conference is in the process of evaluating the impact of this new guidance and does not expect any material impacts on the consolidated financial statements.

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 adopted the provisions of ASU 2016-04 for fiscal 2018 and has retrospectively applied the changes to fiscal 2017. Implementation of this guidance resulted in a change in presentation of net assets and additional statements and disclosures surrounding the Conference's expenses and liquidity.

In March 2017, the FASB issued ASU 2017-07, *Compensation—Retirement Benefits (Topic 715): Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost*. ASU 2017-07 requires that an entity report the service cost component of net periodic pension and postretirement cost in the same line item or items as other compensation costs arising from services rendered by the pertinent employees during the period. The remaining components of net benefit costs are required to be presented in the income statement separately from the service component and outside a subtotal of income from operations, if one is presented. The amendment further allows only the service cost component of net periodic pension and postretirement costs to be eligible for capitalization. ASU 2017-07 is effective for fiscal years beginning after December 15, 2018, and the interim periods included within those annual periods, with early adoption permitted. ASU 2017-07 must be applied retrospectively for the presentation of the service cost component and the other components of net periodic pension cost and net periodic postretirement benefit cost in the income statement, and prospectively, on and after the effective date, for the capitalization of the service cost component of net periodic pension cost and net periodic postretirement benefit in assets. Management is currently evaluating the impact of the adoption of this guidance 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 June 2018, the FASB issued ASU 2018-08, *Not-for-Profit Entities (Topic 958): Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*. ASU 2018-08 clarifies the guidance for evaluating whether a transaction is reciprocal (i.e., an exchange transaction) or nonreciprocal (i.e., a contribution) and for distinguishing between conditional and unconditional contributions. The ASU also clarifies the guidance used by entities other than not-for-profits to identify and account for contributions made. The ASU has different effective dates for resource recipients and resource providers. As the Conference is a resource recipient, the ASU is applicable to contributions received for annual periods beginning after June 15, 2018, including interim periods. Where the Conference is the resource recipient, the ASU is applicable to contributions received for annual periods beginning after December 15, 2018, and interim periods within annual periods beginning after December 15, 2019. Early adoption is permitted. The Conference is in the process of evaluating the impact of this new guidance.

Note 2. Liquidity and Availability of Financial Assets

The Conference's financial assets available for general expenditures within one year after December 31, 2018, are as follows:

Financial assets:	
Cash	$ 6,472,783
Accounts receivable	3,284,571
Investments	75,015,760
Notes receivable (due within one year)	194,783
	84,967,897
Less amounts not available to be used within one year:	
Liabilities held in trust	167,363
Net assets in endowments subject to donor restrictions	1,925,780
Net assets subject to purpose restrictions	1,855,303
Board designated net assets	32,772,171
Financial assets available to meet cash needs for general expenditures within one year	$ 48,247,280

The Conference receives contributions and premium income from constituent churches to provide benefits support to the various clergy for pension contributions and health claims. Over the years, the Conference has placed unrestricted excess cash into investment vehicles, as both retained funds and investment gains, in order to generate income as needed for cash demands. The Council on Finance and Administration (CF&A) monitors the Conference fund accounts while the Conference Board of Pensions and Health Benefits, Inc. (CBOPHB) manages the pension fund accounts. In addition, the Conference receives support without donor restrictions from its constituent base which represents 88% of the budgetary requirements with the remainder controlled through spending management and appropriated earnings from gifts without donor restrictions.

Western North Carolina Conference
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Notes to the Consolidated Financial Statements

Note 2. Liquidity and Availability of Financial Assets (Continued)

Other income without donor restrictions, earnings appropriated from fees, program recaptures, contributions without donor restrictions and contributions with donor restrictions for use in current activities and programs are considered to be available to meet cash needs for general expenditures. General expenditures include primarily administrative and general expenses. Annual operations are defined as activities occurring during, and included in the fiscal year budget.

The Conference manages its cash available to meet general expenditures following three guiding principles: 1) operating within a prudent range of financial soundness and stability, 2) maintaining a sufficient level of asset liquidity, and 3) monitoring and maintaining reserves to provide reasonable assurance that the Conference's obligations will continue to be met.

The Conference CF&A and CBOPHB meets three to four times annually to review and make any necessary adjustments for spending.

Although the Conference does not intend to spend from board designated net assets (other than amounts appropriated for general expenditure as part of the annual budget approval and appropriation), these amounts could be made available if necessary.

Note 3. 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.

The Conference's investments at December 31, 2018 and 2017, are as follows:

	2018	2017
Assets invested by the Foundation:		
Direct investments	$ 4,527,906	$ 8,471,288
Pooled investments	70,204,341	83,394,810
	74,732,247	91,866,098
Assets invested by Wespath:		
Pooled investments	283,513	440,546
	$ 75,015,760	$ 92,306,644

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Notes to the Consolidated Financial Statements

Note 3. Investments (Continued)

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, 2018 and 2017:

	2018	2017
Investment income, net of investment fees (2018 – $468,745; 2017 – $390,372)	$ 2,150,012	$ 1,439,189
Net (loss) gain on investments	(7,169,852)	9,156,584
	$ (5,019,840)	$ 10,595,773

Note 4. 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.

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.

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, 2018 and 2017.

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.

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Notes to the Consolidated Financial Statements

Note 4. Fair Value Measurements (Continued)

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, 2018 and 2017:

		Fair Value Measurements at Reporting Date Using		
	December 31, 2018	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	$ 2,315,824	$ 2,315,824	$ -	$ -
Clergy Debt Program	2,212,082	-	2,212,082	-
	4,527,906	$ 2,315,824	$ 2,212,082	$ -
Investments measured at NAV (a)	70,487,854			
	$ 75,015,760			

		Fair Value Measurements at Reporting Date Using		
	December 31, 2017	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			
	$ 92,306,644			

(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 5) 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 consolidated 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, 2018 and 2017, there were no significant transfers in or out of Levels 1, 2 or 3.

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Note 5. 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, 2018 and 2017:

Investment	Fair Value December 31 2018	Fair Value December 31 2017	Unfunded Commitment	Redemption Frequency	Other Redemption Restrictions	Redemption Notice Period
Commingled pool of assets:						
Assets invested by the Foundation:						
Balanced fund (a)	$14,093,953	$17,777,478	None	Daily	None	Daily
Conservative fund (b)	3,783,530	6,418,334	None	Daily	None	Daily
Diversified fund (c)	51,141,721	57,781,430	None	Daily	None	Daily
Development fund (d)	624,743	793,620	None	Daily	None	Daily
All-equity fund (e)	560,394	623,948	None	Daily	None	Daily
Assets invested by Wespath:						
Short-term investment fund (f)	155,802	304,485	None	Daily	None	Daily
Multiple asset fund (g)	127,711	136,061	None	Daily	None	Daily
Total	$70,487,854	$83,835,356				

(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.

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Notes to the Consolidated Financial Statements

Note 5. Net Asset Value (NAV) (Continued)

(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.

Note 6. Land, Building, Improvements and Equipment

The composition of land, building, improvements and equipment at December 31, 2018 and 2017, is as follows:

	2018	2017
Building and improvements	$ 8,454,072	$ 4,420,130
Furniture and equipment	421,341	1,322,169
Construction in progress	-	342,232
Land	1,541,785	1,416,785
	10,417,198	7,501,316
Less accumulated depreciation	1,316,641	3,571,360
	$ 9,100,557	$ 3,929,956

Depreciation expense was $265,022 and $114,374 for the years ended December 31, 2018 and 2017, respectively.

Note 7. Retirement Plans

Ministers Reserve Pension Fund (MRPF): The Conference participates in the 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 2018 and 2017, 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.

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Notes to the Consolidated Financial Statements

Note 7. 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, 2018 and 2017, the investment account has a balance of $4,955,020 and $4,805,942, respectively. Payment to the MPP was not required during 2018 or 2017, 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 $0 and $1,479,308 was made for the plan years ended December 31, 2018 and 2017, 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, 2018 and 2017, was $270,652 and $285,807, 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, 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 $4,486,153 in 2017 has been reflected as nonoperating income on the consolidated statements of activities. No transfer was made during 2018. 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, 2019.

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Notes to the Consolidated Financial Statements

Note 7. Retirement Plans (Continued)

Total contributions to the CRSP for the years ended December 31, 2018 and 2017, were as follows:

	2018	2017
Defined contribution plan, funded from the Conference	$ 1,466,782	$ 1,522,158
Defined benefit plan, funded from the Conference	4,362,849	-
Defined benefit plan, amounts allocated from the MRPF	-	4,486,153
	$ 5,829,631	$ 6,008,311

The Conference expects the annual contributions for all of the plans above to be approximately $8,000,000 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 8. 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, 2018 and 2017, and a statement of funded status at December 31, 2018 and 2017:

	2018	2017
Reconciliation of accumulated postretirement health benefit obligation:		
Accumulated postretirement health benefit obligation, beginning	$ 10,078,446	$ 14,629,723
Service cost for benefits earned during the year	230,644	591,029
Interest cost on accumulated postretirement health benefit obligation	374,202	576,289
Actuarial gain	(943,027)	(5,560,748)
Contributions by plan participants	993,611	956,184
Benefit payments	(1,041,780)	(1,114,031)
Accumulated postretirement health benefit obligation, ending	9,692,096	10,078,446
Reconciliation of fair value of plan assets:		
Fair value of plan assets, beginning	-	-
Employer contributions	48,169	157,847
Contributions by plan participants	993,611	956,184
Benefit payments	(1,041,780)	(1,114,031)
Fair value of plan assets, ending	-	-
Funded status, accumulated postretirement health benefit obligation in excess of plan assets	$ (9,692,096)	$ (10,078,446)

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Note 8. 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, 2018 and 2017, consisted of the following:

	2018	2017
Service cost for benefits earned during the year	$ 230,644	$ 591,029
Interest cost on accumulated postretirement health benefit obligation	374,202	576,289
Amortization of net gain	(1,145,277)	(697,477)
Total net value (added) cost	$ (540,431)	$ 469,841
Amounts recognized in postretirement changes other than net periodic postretirement health benefit costs:		
Actuarial gain for current year	$ 943,027	$ 5,560,748
Amortization of actuarial gain	(1,145,277)	(697,477)
Postretirement changes other than net periodic postretirement health benefit costs	$ (202,250)	$ 4,863,271
Amounts recognized in net assets without donor restrictions but not yet recognized as components of net periodic postretirement health benefit costs:		
Unamortized actuarial gain	$ (14,354,225)	$ (14,556,475)
Amount in net assets without donor restrictions expected to be recognized in net periodic postretirement health benefit costs in 2019:		
Net actuarial gain	$ (1,125,737)	

The actuarial gain in 2018 is due primarily to favorable demographic and claims experience during 2018 along with per-capita cost updates to reflect actual historical experience. The discount rate has been updated from 3.75% to 4.25%, and the mortality table has been updated to the RP-2014, modified with Scale MP-2018, projected generationally.

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

Years ending December 31:	
2019	$ 251,288
2020	234,458
2021	215,810
2022	195,482
2023	181,080
2024-2028	801,261

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Notes to the Consolidated Financial Statements

Note 8. Postretirement Health Benefit Plan (Continued)

The accumulated postretirement health benefit obligation was computed using an assumed discount rate of 4.25% and 3.75% for 2018 and 2017, 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 health care trend rate was assumed to be 10% for 2018 and is assumed to decline by 0.50% beginning in 2019 until reaching 5% in 2028, and remaining level thereafter. The over 65 health care trend rate was assumed to be 5.00% for 2018 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	$ (168,754)	$ 242,625
Effect on the accumulated postretirement health benefit obligation	(1,922,160)	2,586,724

As of December 31, 2018 and 2017, the Conference has approximately $7,648,000 and $9,162,000, 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.

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Note 9. Net Assets

Net assets consist of the following:

	2018	2017
Net assets without donor restrictions:		
Board designated:		
Church vitality	$ 1,592,462	$ 1,692,682
Pension and health benefits	26,250,056	32,335,999
Property maintenance and acquisition	2,573,723	2,777,727
Program ministries	2,355,930	2,289,650
	32,772,171	39,096,058
Investment in land, building, improvements and equipment	9,100,557	3,929,956
Undesignated	37,766,378	46,304,151
Total net assets without donor restrictions	79,639,106	89,330,165
Net assets with donor restrictions:		
Subject to expenditure for specified purpose:		
Transition into ministry	27,229	26,241
Church vitality	291,921	356,042
Retired ministers and their spouses	987,210	1,103,880
Disaster relief	8,654	62,236
Program ministries	1,608,549	1,420,633
Property maintenance and acquisition	20,752	24,502
Accumulated gains	(1,089,012)	(1,317,830)
	1,855,303	1,675,704
Subject to spending policy and appropriation:		
Endowment funds restricted in perpetuity	836,768	836,768
Accumulated gains	1,089,012	1,317,830
	1,925,780	2,154,598
Subject to the passage of time:		
Time restricted	94,615	109,935
Total net assets with donor restrictions	3,875,698	3,940,237
	$ 83,514,804	$ 93,270,402

Net assets without donor restrictions include amounts that have been designated by the Board of Trustees, Conference Board of Pension and Health Benefits and the General Council on Finance and Administration of the United Methodist Church for specific purposes and other amounts that are unavailable for operational use by the Conference. As of December 31, 2018 and 2017, the Board of Trustees, Board of Pension and Health Benefits and the General Council on Finance and Administration of the United Methodist Church have designated $26,250,056 and $32,335,999, respectively, as board designated endowment funds.

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Note 10. Net Assets Released From Restrictions

During the years ended December 31, 2018 and 2017, net assets were released from donor restrictions by incurring expenses satisfying the restricted purposes or by occurrence of other events specified by donors.

	2018	2017
Church Vitality	$ 21,307	$ 437,080
Retired ministers and their spouses	3,883	3,789
Disaster relief	160,035	-
Program ministries	1,038,581	1,692,040
Transition into ministry	-	18,079
Property maintenance	2,250	200
	$ 1,226,056	$ 2,151,188

Note 11. 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.

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Notes to the Consolidated Financial Statements

Note 11. Endowment (Continued)

Endowment net composition by type of fund as of December 31, 2018, is as follows:

	2018				
		With Donor Restrictions			
	Without Donor Restrictions	Original Gift Amount	Accumulated Gains (Losses) and Other	Total With Donor Restrictions	Total Endowment Funds
Board designated endowment funds	$ 26,250,056	$ -	$ 614,262	$ 614,262	$ 26,864,318
Donor-restricted endowment funds	-	836,768	474,750	1,311,518	1,311,518
	$ 26,250,056	$ 836,768	$ 1,089,012	$ 1,925,780	$ 28,175,836

Changes in endowment net assets for the years ended December 31, 2018 and 2017, are as follows:

	2018				
		With Donor Restrictions			
	Without Donor Restrictions	Original Gift Amount	Accumulated Gains (Losses) and Other	Total With Donor Restrictions	Total Endowment Funds
Endowment net assets, beginning of year	$ 32,335,999	$ 836,768	$ 1,317,830	$ 2,154,598	$ 34,490,597
Investment return:					
Investment income	763,445	-	-	-	763,445
Net losses (realized and unrealized)	(2,715,995)	-	(158,669)	(158,669)	(2,874,664)
Total investment loss	(1,952,550)	-	(158,669)	(158,669)	(2,111,219)
Appropriation of endowment assets for expenditure	(4,181,555)	-	(21,987)	(21,987)	(4,203,542)
Other changes:					
Transfers	48,162	-	(48,162)	(48,162)	-
Endowment net assets, end of year	$ 26,250,056	$ 836,768	$ 1,089,012	$ 1,925,780	$ 28,175,836

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

	2017				
		With Donor Restrictions			
	Without Donor Restrictions	Original Gift Amount	Accumulated Gains (Losses) and Other	Total With Donor Restrictions	Total Endowment Funds
Board designated endowment funds	$ 32,335,999	$ -	$ 664,075	$ 664,075	$ 33,000,074
Donor-restricted endowment funds	-	836,768	653,755	1,490,523	1,490,523
	$ 32,335,999	$ 836,768	$ 1,317,830	$ 2,154,598	$ 34,490,597

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Notes to the Consolidated Financial Statements

Note 11. Endowment (Continued)

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

		2017			
		With Donor Restrictions			
	Without Donor Restrictions	Original Gift Amount	Accumulated Gains (Losses) and Other	Total With Donor Restrictions	Total Endowment Funds
Endowment net assets, beginning of year	$ 29,508,079	$ 1,325,241	$ 1,368,502	2,693,743	32,201,822
Investment return:					
Investment income	548,262	-	35,006	35,006	583,268
Net gains (realized and unrealized)	3,765,597	-	287,646	287,646	4,053,243
Total investment return	4,313,859	-	322,652	322,652	4,636,511
Appropriation of endowment assets for expenditure	(1,485,939)	-	(21,219)	(21,219)	(1,507,158)
Other changes:					
Transfers from endowment	-	(488,473)	(352,105)	(840,578)	(840,578)
Endowment net assets, end of year	$ 32,335,999	$ 836,768	$ 1,317,830	$ 2,154,598	$ 34,490,597

During 2017, the Conference reviewed and determined, in connection with legal counsel, that a previously recorded gift from a donor was incorrectly classified. The original amount of the gift and the accumulated earnings were transferred from endowed net assets to non-endowed 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.

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Notes to the Consolidated Financial Statements

Note 11. Endowment (Continued)

Funds with deficiencies: From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level that the donor requires the Conference to retain as a fund of perpetual duration. Deficiencies of this nature that are reported in net assets with donor restrictions were $0 as of both December 31, 2018 and 2017.

Note 12. 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 $55,000. Total rent expense was $216,636 and $111,725 for the years ended December 31, 2018 and 2017, respectively.

Future minimum rental commitments for all noncancelable leases at December 31, 2018, are as follows:

Years ending December 31:	
2019	$ 115,008
2020	97,839
2021	85,762
2022	51,050
	$ 349,659

Note 13. 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 75% 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 14. 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 $205,731,028 and $227,935,000 as of December 31, 2018 and 2017, respectively. Of those assets, approximately $181,923,882 and $203,568,000, respectively, are investments. See Note 2 for the Conference's portions of those investments.

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

Notes to the Consolidated Financial Statements

Note 14. 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 $622,000 and $602,000 for the years ended December 31, 2018 and 2017, respectively. These entities provided contributions to the Conference totaling approximately $100,000 and $222,000 for the years ended December 31, 2018 and 2017, respectively.

RSM

RSM US LLP

Independent Auditor's Report on the Supplementary Information

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

We have audited the consolidated financial statements of the Western North Carolina Conference of the United Methodist Church and Subsidiary (the Conference) as of and for the years ended December 31, 2018 and 2017, have issued our report thereon, which contains an unmodified opinion on those consolidated financial statements. See pages 1 and 2. Our audits were conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The supplementary information is presented for purposes of additional analysis and is not a required part of the consolidated 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 audits 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.

RSM US LLP

Charlotte, North Carolina
July 26, 2019

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Charlotte Area Episcopal Fund of the
Western North Carolina Conference
of the United Methodist Church and Subsidiary

Schedules of Cash Receipts and Disbursements
Years Ended December 31, 2018 and 2017

	2018	2017
Receipts:		
Episcopal Fund allocation	$ 86,252	$ 84,560
Total cash receipts	86,252	84,560
Disbursements:		
Staff salary	61,643	59,464
Travel	10,725	8,501
Telephone	1,110	2,200
Postage	377	713
Office supplies	637	782
Equipment purchases and maintenance	659	1,442
Printing and copying	668	1,374
Rent	6,681	5,599
Employee benefits	4,762	15,997
Professional entertainment	440	-
Miscellaneous disbursement	5,411	5,183
Total disbursements	93,113	101,255
Decrease in cash during the year	(6,861)	(16,695)
Amount allocated from general fund	6,861	16,695
Fund balance, beginning	-	-
Fund balance, ending	$ -	$ -

As part of the Conference's accounting function, all fixed assets owned by the Episcopal Office are accounted for within the Conference's books and are presented within Note 6.

B. 2020 COMPREHENSIVE BENEFIT FUNDING PLAN SUMMARY

INTRODUCTION

The 2016 Book of Discipline ¶ requires that each annual conference develop, adopt and implement a formal comprehensive funding plan for funding all 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 2020 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, 2018, is 1,740,019,798, while total plan assets are $1,904,387,237, resulting in a current plan funded ratio of 109%. The Western North Carolina Conference portion of the liability is 3.9580% and the 2020 contribution is $4,074,313. The conference anticipates that the amount will be funded by 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, 2020.

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 2020 CRSP DC contribution is anticipated to be $1,513,000 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, 2018 is $3,606,807,509, while total plan assets are $3,885,277,143, resulting in a current plan funded ratio of 108%. The required contribution for 2020 is zero. The Western North Carolina Conference's percentage of the total liability is 2.9275%. Future MPP annuitants have a total account balance of $3,803,548,721 and the Western North Carolina Conference's portion of that balance is $155,422,750 or 4.09% 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 2020 PSR recommended to the Western North Carolina Conference will be $806.00, representing a 2% increase from the 2019 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 2020 is anticipated to be $14,382,000 and will be funded by Benefits Fund, Clergy Pension Protection Fund, Direct Billing. It is anticipated that increases for future years will average 2.00%.

The rationale for these changes is that the actual costs continue to increase over time. The anticipated increase of 2% is realistic given the decline in number of active clergy serving.

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 12/31/2020, the estimated IBNR claims total is $1,006,740. It is anticipated that increases for future years will average 2.00%. It is anticipated that the IBNR claims, if applicable, will be funded by billed premiums and premium reserves, if applicable.

Additional Conference-Sponsored 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 12/31/2018):

1. Clergy or lay on disability (including pending disability): 17 participants at an estimated cost of $193,800.

The projected annual cost as of 12/31/2020 for additional plan sponsor funded coverage is $201,630.

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 2020 is to Retain current plan benefit. PRM benefits provided are as follows: The PRM for WNCC is a Medicare Supplemental plan that is self-funded with premiums charged to retired clergy and spouses based on a range of years of service.

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 2020 (subsidies, HRAs, claims or premiums) is $1,198,141.

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 2020, 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. The anticipated average increase in future years is expected to be 1.00% per year due to the adjusted percentage is based on June 2019 invoicing amount as more accurate for 2019.

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 2020 is $210,945 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*. The estimated contribution for 2020 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 active clergy is 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 expense. The estimated contribution for 2020 is $130,000 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 Less funds requested in previous years due to lessor clergy moving.

CONCLUSION
The 2020 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.