



Audited Financial Statements
Years Ended December 31, 2017 and 2016

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BRADY WARE
& SCHOENFELD

INDEPENDENT AUDITORS' REPORT

To the Council on Finance and Administration
**North Georgia Conference of the United
Methodist Church**
Atlanta, Georgia

We have audited the accompanying financial statements of the Conference Treasurer of the **North Georgia Conference of the United Methodist Church** (a nonprofit organization), which comprise the statements of financial position as of December 31, 2017 and 2016, and the related statements of activities and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with 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.

Auditors' Responsibility

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

An audit involves performing procedures to obtain evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' 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 obtained is sufficient and appropriate to provide a basis for our audit opinion.

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INDEPENDENT AUDITORS' REPORT - CONTINUED

Opinion

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

Brady, Ware & Schoenfeld, Inc.

Atlanta, Georgia
October 4, 2018

**NORTH GEORGIA CONFERENCE OF THE UNITED
METHODIST CHURCH**

STATEMENTS OF FINANCIAL POSITION

December 31, 2017 and 2016

	<u>2017</u>	<u>2016</u>
ASSETS		
Cash	\$ 4,167,325	\$ 5,476,614
Apportionments receivable	894,704	1,030,111
Accounts receivable	231,074	204,042
Investments	71,256,072	60,968,569
Prepaid expenses and other	831,282	788,966
Property held for sale	8,443,906	6,699,900
Property and equipment, net	<u>861,836</u>	<u>973,397</u>
Total Assets	<u>\$ 86,686,199</u>	<u>\$ 76,141,599</u>
LIABILITIES AND NET ASSETS		
Accounts payable and accrued expenses	\$ 1,775,443	\$ 1,759,136
Due to affiliated organizations	2,088,458	-
Notes payable	-	412,696
Unfunded post-retirement health care benefit plan	<u>40,788,836</u>	<u>42,760,689</u>
Total Liabilities	<u>44,652,737</u>	<u>44,932,521</u>
NET ASSETS		
Unrestricted:		
Undesignated	3,658,180	3,397,454
Designated	35,220,955	24,955,745
Temporarily restricted	2,995,223	2,696,775
Permanently restricted	<u>159,104</u>	<u>159,104</u>
Total Net Assets	<u>42,033,462</u>	<u>31,209,078</u>
Total Liabilities and Net Assets	<u>\$ 86,686,199</u>	<u>\$ 76,141,599</u>

**NORTH GEORGIA CONFERENCE OF THE UNITED
METHODIST CHURCH**

STATEMENT OF ACTIVITIES

Year Ended December 31, 2017

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
REVENUE AND SUPPORT				
Apportionments	\$ 20,914,005	\$ -	\$ -	\$ 20,914,005
Contributions	3,799,586	164,175	-	3,963,761
Insurance premiums	16,683,859	-	-	16,683,859
Investment income	259,057	75,318	-	334,375
Net realized and unrealized gains on investments	9,921,277	346,978	-	10,268,255
Other revenue	834,263	-	-	834,263
Net assets released from restrictions: Restrictions satisfied by payments	<u>288,023</u>	<u>(288,023)</u>	<u>-</u>	<u>-</u>
Total Revenue and Support and reclassifications	<u>52,700,070</u>	<u>298,448</u>	<u>-</u>	<u>52,998,518</u>
EXPENSES				
Ministerial support	2,266,240	-	-	2,266,240
Annual conference administration	3,837,851	-	-	3,837,851
Connectional ministries	1,879,314	-	-	1,879,314
General and jurisdictional apportionments	6,017,168	-	-	6,017,168
Other conference missions	1,816,130	-	-	1,816,130
Church development	2,108,961	-	-	2,108,961
Premiums remitted	17,577,376	-	-	17,577,376
Retirement benefit cost	2,244,035	-	-	2,244,035
Support for affiliated organizations	<u>2,439,153</u>	<u>-</u>	<u>-</u>	<u>2,439,153</u>
Total Expenses	<u>40,186,228</u>	<u>-</u>	<u>-</u>	<u>40,186,228</u>
CHANGE IN NET ASSETS BEFORE ACTUARIAL LOSS IN POST- RETIREMENT HEALTHCARE BENEFIT PLAN				
	12,513,842	298,448	-	12,812,290
ACTUARIAL LOSS IN POST- RETIREMENT HEALTHCARE BENEFIT PLAN				
	<u>(1,987,906)</u>	<u>-</u>	<u>-</u>	<u>(1,987,906)</u>
CHANGE IN NET ASSETS				
	10,525,936	298,448	-	10,824,384
NET ASSETS				
Beginning of year	<u>28,353,199</u>	<u>2,696,775</u>	<u>159,104</u>	<u>31,209,078</u>
End of year	<u>\$ 38,879,135</u>	<u>\$ 2,995,223</u>	<u>\$ 159,104</u>	<u>\$ 42,033,462</u>

See notes to financial statements.

**NORTH GEORGIA CONFERENCE OF THE UNITED
METHODIST CHURCH**

STATEMENT OF ACTIVITIES

Year Ended December 31, 2016

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
REVENUE AND SUPPORT				
Apportionments	\$ 20,857,399	\$ -	\$ -	\$ 20,857,399
Contributions	12,132,603	200,924	-	12,333,527
Insurance premiums	16,201,610	-	-	16,201,610
Investment income	255,555	85,404	-	340,959
Net realized and unrealized gains on investments	4,397,635	122,495	-	4,520,130
Other revenue	643,841	-	-	643,841
Net assets released from restrictions:				
Restrictions satisfied by payments	<u>413,728</u>	<u>(413,728)</u>	<u>-</u>	<u>-</u>
Total Revenue and Support and reclassifications	<u>54,902,371</u>	<u>(4,905)</u>	<u>-</u>	<u>54,897,466</u>
EXPENSES				
Ministerial support	2,867,489	-	-	2,867,489
Annual conference administration	2,669,249	-	-	2,669,249
Connectional ministries	1,871,983	-	-	1,871,983
General and jurisdictional apportionments	5,950,562	-	-	5,950,562
Other conference missions	1,222,838	-	-	1,222,838
Church development	1,299,995	-	-	1,299,995
Premiums remitted	17,091,896	-	-	17,091,896
Retirement benefit cost	8,205,334	-	-	8,205,334
Support for affiliated organizations	<u>2,218,946</u>	<u>-</u>	<u>-</u>	<u>2,218,946</u>
Total Expenses	<u>43,398,292</u>	<u>-</u>	<u>-</u>	<u>43,398,292</u>
CHANGE IN NET ASSETS BEFORE ACTUARIAL LOSS IN POST- RETIREMENT HEALTHCARE BENEFIT PLAN				
	11,504,079	(4,905)	-	11,499,174
ACTUARIAL LOSS IN POST- RETIREMENT HEALTHCARE BENEFIT PLAN				
	<u>(1,606,930)</u>	<u>-</u>	<u>-</u>	<u>(1,606,930)</u>
CHANGE IN NET ASSETS				
	9,897,149	(4,905)	-	9,892,244
NET ASSETS				
Beginning of year	<u>18,456,050</u>	<u>2,701,680</u>	<u>159,104</u>	<u>21,316,834</u>
End of year	<u>\$ 28,353,199</u>	<u>\$ 2,696,775</u>	<u>\$ 159,104</u>	<u>\$ 31,209,078</u>

**NORTH GEORGIA CONFERENCE OF THE UNITED
METHODIST CHURCH**

STATEMENTS OF CASH FLOWS

Years Ended December 31, 2017 and 2016

	<u>2017</u>	<u>2016</u>
OPERATING ACTIVITIES		
Change in net assets	\$ 10,824,384	\$ 9,892,244
Adjustments to reconcile change in net assets to net cash used by operating activities:		
Depreciation	120,471	129,115
Net realized and unrealized gains on investments	(10,268,255)	(4,520,130)
Net realized and unrealized losses on property held for sale	680,605	-
Noncash contribution of property held for sale	(696,153)	(6,197,632)
Actuarial gain in post-retirement health care benefit plan	<u>(2,363,388)</u>	<u>(2,480,772)</u>
	(1,702,336)	(3,177,175)
Changes in operating assets and liabilities:		
Apportionments receivable	135,407	(452,670)
Accounts receivable	(27,032)	57,097
Prepaid expenses and other	(42,316)	24,962
Accounts payable and other accrued expenses	16,307	186,319
Unfunded post-retirement healthcare benefit obligation	<u>391,535</u>	<u>202,074</u>
Net Cash Used by Operating Activities	<u>(1,228,435)</u>	<u>(3,159,393)</u>
Net Cash Provided by Investing Activities		
Proceeds from sale of investments	40,537,511	21,749,326
Purchase of investments	(40,556,759)	(18,088,156)
Proceeds from sale of property held for sale	360,000	-
Purchases of property and equipment	<u>(8,910)</u>	<u>(19,944)</u>
Net Cash Provided by Investing Activities	<u>331,842</u>	<u>3,641,226</u>
FINANCING ACTIVITIES		
Principal payments on notes payable	<u>(412,696)</u>	<u>(14,672)</u>
NET INCREASE (DECREASE) IN CASH	(1,309,289)	467,161
CASH		
Beginning of year	<u>5,476,614</u>	<u>5,009,453</u>
End of year	<u>\$ 4,167,325</u>	<u>\$ 5,476,614</u>
SUPPLEMENTAL CASH FLOW INFORMATION:		
Cash paid during the year for interest	<u>\$ -</u>	<u>\$ 14,951</u>
NONCASH TRANSACTIONS:		
Due to affiliated organizations from property held for sale	<u>\$ 2,088,458</u>	<u>\$ -</u>
Assumption of notes payable with property held for sale	<u>\$ -</u>	<u>\$ 427,368</u>

See notes to financial statements.

**NORTH GEORGIA CONFERENCE OF THE UNITED
METHODIST CHURCH**

NOTES TO FINANCIAL STATEMENTS

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The **North Georgia Conference of the United Methodist Church** (the "Conference") represents one of the basic organizational bodies in the global United Methodist Church. The Conference serves as the denominational arm for more than 800 local United Methodist churches in northern Georgia. The Conference provides administrative and program services to churches, clergy and laypeople within its geographic boundaries. Primary among these services are ordination and assignment of ministers, volunteer training, new church development and the collection and remittance of funds for local, regional and international ministries.

Basis of Presentation - The Conference is required to report information regarding its financial position and activities according to the three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets.

Unrestricted net assets are not subject to donor-imposed stipulations and can be designated by the Conference for various purposes. Designated net assets consist of pension and post-retirement healthcare funds, church development funds, housing and homeless funds, disaster relief funds, training related funds and the net investment in property and equipment.

Temporarily restricted net assets consist of donor restricted contributions for support of minister sustentation, church development and missions. Amounts restricted by the donor are maintained until the applicable stipulation has been accomplished.

Permanently restricted net assets consist of donor restricted contributions where the stipulations must be maintained permanently. The donors generally allow the income from the related investments to be used for general or specific purposes.

Contributions - The principal source of support is apportionments received from the local churches. Apportionments are the recommended contributions for the local churches. Apportionments expire at the end of each calendar year. Local churches do not have any commitment on any underpayment of their apportionments. Additional contributions are received directly from donors. Such contributions are recognized when the donor makes an unconditional promise to give to the Conference. Contributions of donated noncash assets are recorded at their estimated fair value at the date of donation. The Methodist Foundation for Retired Ministers of the North Georgia Conference, Inc. was incorporated in 1940 to provide a permanent endowment fund to support retired ministers of the Conference, and the widows and dependent children of deceased ministers. Contributions from the Foundation are based on a distribution of 5% of a three year average balance of the fund. During 2017 and 2016, contributions totaling \$68,000 and \$225,710 were received from the Foundation designated for pension and health benefits.

Agency Accounts - The Conference Treasurer serves as a clearinghouse for numerous United Methodist organizations. This clearinghouse operation allows local churches to collect monies for such things as missionary support, disaster relief, campus ministries and other church supported operations. The funds collected by local churches are remitted to the Conference Treasurer. The Conference Treasurer forwards these receipts to the beneficiary agency.

Investments - Investments in marketable securities with readily determinable fair values and all investments in debt securities are valued at their fair values in the Statements of Financial Position. Unrealized gains and losses are included in the change in net assets.

**NORTH GEORGIA CONFERENCE OF THE UNITED
METHODIST CHURCH**

NOTES TO FINANCIAL STATEMENTS

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued

Property and Equipment - Property and equipment are stated at cost. Depreciation is computed using the straight-line method over the estimated useful lives of the assets. Repairs and maintenance are charged to expense as incurred and renewals and betterments are capitalized. When property is retired or disposed of, the related cost and accumulated depreciation are removed from the accounts and any gain or loss is included in the statement of activities.

The Conference reviews for impairment of long-lived assets in accordance with accounting standards. These standards require companies to determine if changes in circumstances indicate that the carrying amount of its long-lived assets may not be recoverable. If a change in circumstances warrants such an evaluation, undiscounted future cash flows from the use and ultimate disposition of the asset, as well as respective market values, are estimated to determine if an impairment exists. Management believes that there has been no impairment of the carrying value of its long-lived assets at December 31, 2017 and 2016.

Accounts Receivable - The Conference establishes an allowance for doubtful accounts receivable based on historical collection experience and management's evaluation of collectibility of outstanding accounts receivable.

Accounting for Uncertainty in Income Taxes - Accounting standards require the evaluation of tax positions taken, or expected to be taken, in the course of preparing the Conference's tax returns, to determine whether the tax positions are "more-likely-than-not" of being sustained by the applicable tax authority. This statement provides that a tax benefit from an uncertain tax position may be recognized in the financial statements only when it is "more-likely-than-not" the position will be sustained upon examination, including resolution of any related appeals or litigation processes, based upon the technical merits and consideration of all available information. Once the recognition threshold is met, the portion of the tax benefit that is recorded represents the largest amount of tax benefit that is greater than 50 percent likely to be realized upon settlement with a taxing authority. Based on its review, management does not believe the Conference has taken any material uncertain tax positions, including any position that would place the Conference's exempt status in jeopardy, as of December 31, 2017.

Use of Estimates - The preparation of financial statements in conformity with generally accepted accounting principles 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 financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

Accounting Standards Update - In May 2015, the Financial Accounting Standards Board (FASB) issued ASU 2015-07, *Fair Value Measurement (Topic 820) Disclosures for Investments in Certain Entities that Calculate Net Assets Value per Share (or Its Equivalent)*, which exempts investments measured using the net asset value (NAV) practical expedient in ASC 820, *Fair Value Measurement*, from categorization within the fair value hierarchy. The guidance requires retrospective application and is effective for entities for fiscal years, and interim periods within those years, beginning after December 15, 2016. Early adoption is permitted. The Conference did not elect to early adopt the provisions of this new standard. Accordingly the amendment was retrospectively applied.

Subsequent Events - The Conference has evaluated subsequent events through October 4, 2018, the date which the financial statements were available to be issued.

**NORTH GEORGIA CONFERENCE OF THE UNITED
METHODIST CHURCH**

NOTES TO FINANCIAL STATEMENTS

NOTE 2 - CONCENTRATIONS OF CREDIT RISK

Financial instruments which potentially subject the Conference to concentrations of credit risk consist principally of cash and investments. The Conference investment policies provide for the investment of excess cash balances in deposits with major institutions and in other high quality short-term liquid money market instruments. The Conference maintains cash balances at various financial institutions. At various times during 2017 and 2016, the cash balance was in excess of FDIC limits.

The exposure to concentrations of credit risk relative to the Conference's investments is limited due to the Conference's investment objectives and policies which require, among other things, that securities be diversified, meet certain quality criteria, and utilize only high credit quality institutions for investments. The investments are not insured for market risk.

NOTE 3 - FAIR VALUE MEASUREMENTS

The fair value of the Conference's assets measured on a recurring basis at December 31, 2017 and 2016 are as follows:

	2017			
	Level 1	Level 2	Net Asset Value	Total
Investments:				
Certificates of Deposit	\$ -	\$ 102,432	\$ -	\$ 102,432
Georgia United Methodist Foundation, Inc.:				
Certificates of Deposit	-	1,545,172	-	1,545,172
Fixed income funds	7,499,019	-	-	7,499,019
Equity funds	-	-	22,845,715	22,845,715
Money market funds	301,912	-	-	301,912
Wespath Benefits and Investments:				
Multiple asset funds	-	-	38,241,040	38,241,040
Superannuate funds	-	-	118,841	118,841
United Methodist Development Fund:				
Money market funds	518,228	-	-	518,228
Equity Fund	67,878	-	-	67,878
Common Stock	15,835	-	-	15,835
Total Investments	<u>\$ 8,402,872</u>	<u>\$ 1,647,604</u>	<u>\$ 61,205,596</u>	<u>\$ 71,256,072</u>
Property Held for Sale	<u>\$ -</u>	<u>\$ 8,443,906</u>	<u>\$ -</u>	<u>\$ 8,443,906</u>

**NORTH GEORGIA CONFERENCE OF THE UNITED
METHODIST CHURCH**

NOTES TO FINANCIAL STATEMENTS

NOTE 3 - FAIR VALUE MEASUREMENTS - continued

	2016			
	Level 1	Level 2	Net Asset Value	Total
Investments:				
Certificates of Deposit	\$ -	\$ 102,330	\$ -	\$ 102,330
Georgia United Methodist Foundation, Inc.:				
Certificates of Deposit	-	1,513,286	-	1,513,286
Fixed income funds	6,632,496	-	-	6,632,496
Equity funds	-	-	16,904,453	16,904,453
Money market funds	1,416,428	-	-	1,416,428
Wespath Benefits and Investments:				
Multiple asset funds	-	-	33,707,415	33,707,415
Superannuate funds	-	-	100,727	100,727
United Methodist Development Fund:				
Money market funds	513,969	-	-	513,969
Equity Fund	63,081	-	-	63,081
Common Stock	<u>14,384</u>	<u>-</u>	<u>-</u>	<u>14,384</u>
Total Investments	<u>\$ 8,640,358</u>	<u>\$ 1,615,616</u>	<u>\$ 50,712,595</u>	<u>\$ 60,968,569</u>
Property Held for Sale	<u>\$ -</u>	<u>\$ 6,699,900</u>	<u>\$ -</u>	<u>\$ 6,699,900</u>

Assets carried at fair value are classified and disclosed in one of the following categories:

Level 1 - Valuations are based on quoted market prices in active markets for identical assets.

Level 2 - Valuations are based on observable market information, including quoted prices from actual market transactions for similar assets in markets that are not active.

Net Asset Value - Certain investments that are measured at fair value using the NAV per share (or its equivalent) as a practical expedient have not been categorized in the fair value hierarchy. The fair value amounts presented in the tables above are intended to permit reconciliation of the fair value hierarchy to the amounts presented in the statements of financial position.

The Conference has designated investment funds at December 31, 2017 for the payment of the following obligations:

Post-retirement health care plan benefits	\$ 43,861,217
Temporarily restricted net assets	2,487,963
Permanently restricted net assets	<u>159,104</u>
Total	<u>\$ 46,508,284</u>

**NORTH GEORGIA CONFERENCE OF THE UNITED
METHODIST CHURCH**

NOTES TO FINANCIAL STATEMENTS

NOTE 4 - INVESTMENTS

Investments consist of the following at December 31, 2017 and 2016:

	<u>2017</u>	<u>2016</u>
Certificates of Deposit	\$ 102,432	\$ 102,330
Georgia United Methodist Foundation, Inc.:		
Certificates of Deposit	1,545,172	1,513,286
Fixed income funds	7,499,019	6,632,496
Equity funds	22,845,715	16,904,453
Money market funds	301,912	1,416,428
Wespath Benefits and Investments:		
Multiple asset funds	38,241,040	33,707,415
Superannuate funds	118,841	100,727
United Methodist Development Fund:		
Money market funds	518,228	513,969
Equity Fund	67,878	63,081
Common Stock	<u>15,835</u>	<u>14,384</u>
	<u>\$ 71,256,072</u>	<u>\$ 60,968,569</u>

NOTE 5 - PROPERTY AND EQUIPMENT

Property and equipment consist of the following at December 31, 2017 and 2016:

	<u>2017</u>	<u>2016</u>
Episcopal Residence	\$ 811,268	\$ 811,268
Leasehold improvements	272,670	263,758
Furniture and fixtures	195,420	195,420
Office equipment	130,703	130,703
Computer equipment	<u>122,691</u>	<u>122,691</u>
Total	1,532,752	1,523,840
Less accumulated depreciation	<u>670,916</u>	<u>550,443</u>
	<u>\$ 861,836</u>	<u>\$ 973,397</u>

NOTE 6 - PROPERTY HELD FOR SALE

Property held for sale includes land held for future church development. In 2016, the Conference received land and buildings from a discontinued church and assumed debt in connection with the property (see Note 7). A portion of the property sold in 2017 and the remaining property was sold in 2018. In 2017, the Conference received properties from Districts within the Conference for maintenance services and future sales. In accordance with a fund resolution, the Conference will remit 75% of the net proceeds from future sales of these properties to the respective District for future church development, and the remaining 25% will be used by the Conference for future church development. Accordingly, due to affiliated organizations at December 31, 2017 represents estimated amounts due to Districts in connection with future sales of properties held for sale.

**NORTH GEORGIA CONFERENCE OF THE UNITED
METHODIST CHURCH**

NOTES TO FINANCIAL STATEMENTS

NOTE 7 - NOTES PAYABLE

Notes payable at December 31, 2016 consisted of two notes to a financial institution. The notes were payable in equal installments including interest at 5.25% with two balloon payments due at maturity in October 2018 totaling \$375,915. The notes were collateralized by property held for sale (see Note 6). Interest expense totaled \$19,897 and \$14,951 for 2017 and 2016. Both notes were paid in full during 2017.

NOTE 8 - RELATED PARTY TRANSACTIONS

For efficiency of operations, all cash receipts and disbursements for the Office of the Resident Bishop are processed through the Conference Treasurer's checking account. Separate financial records are maintained for each organization. The Conference Treasurer held \$71,446 and \$69,930 for the Office of the Resident Bishop at December 31, 2017 and 2016.

NOTE 9 - RETIREMENT BENEFITS

The Conference and its local churches participate in various retirement programs offered by The United Methodist Church and are administered by Wespath Benefits and Investments. All of the programs are multi-employer plans except for the multiple employer post-retirement health care plan. Generally accepted accounting principles prescribe methods for determining the cost and recording the unfunded liability of multiple employer defined benefit plans. Such methods are not prescribed for multi-employer defined benefit plans and accordingly unfunded liabilities related to such plans, if any, are not recorded in the accompanying Statement of Financial Position. However, the Conference has computed estimates of potential liabilities for the multi-employer plans with input from Wespath which are disclosed in the discussion of the applicable plans. Annual contributions to Wespath for these plans are funded through the Conference operating budget and a combination of direct billing to local churches and individuals. Contributions due to Wespath that are not paid by churches and individuals become an obligation of the Conference.

Multi-employer Defined Benefit Retirement Plans - The Conference contributes to one defined benefit multi-employer pension plan under the United Methodist Church's (UMC) General Conference directive which covers its clergy members. This plan is managed as three sub-plans (Pre-1982, MPP and CRSP) since the benefit structure differs for each of the plans. The plan's provisions are governed by the General Conference, a United Methodist Church-wide decision-making body composed of 50% clergy and 50% lay delegates that meets once every four years.

Changes to plan provisions are not allowed between General Conferences except to the extent they are required to maintain compliance with secular law. There have been no significant changes that affect the comparability of 2017 and 2016 contributions. The risks of participating in these multi-employer sub-plans are different from single-employer plans in the following respects:

- Assets contributed to the multi-employer plan by one annual conference may be used to provide benefits to clergy of other U.S. UMC annual conferences.
- If an annual conference stops contributing to the plan, the unfunded obligations of the plan may be borne by the remaining participating annual conferences.

**NORTH GEORGIA CONFERENCE OF THE UNITED
METHODIST CHURCH**

NOTES TO FINANCIAL STATEMENTS

NOTE 9 - RETIREMENT BENEFITS - continued

The multi-employer plan is a non-electing church plan under Internal Revenue Code §414(e) and §410(d). As such, it is exempt from the minimum funding requirements of ERISA, the Pension Protection Act of 2006 and Internal Revenue Code §412 and 430-436 (see §412 (e)(2)(D)). Further, the plan is exempt from filing a Form 5500. The Pension Trust Employer Identification Number is 56-6658844.

Ministers Reserve Pension Plan (Pre-1982) - Conference clergy entering service prior to January 1, 1982 are eligible for pension coverage under a defined benefit multi-employer pension plan. General Conference 2000 required each annual conference to adopt a formal funding plan to retire the conference pre-1982 pension plan obligations. The Conference presents a plan each year at Annual Conference to amortize and pay the past service liability by December 31, 2021. The Conference made contributions of \$4,000,000 and \$10,000,000 for 2017 and 2016. The Conference will continue to apportion funds until December 31, 2021 to offset any changes in market conditions and actuarial assumptions. During 2016, the Conference received \$4,000,000 from the Foundation for Retired Ministers to help with funding the Pre-1982 plan.

Ministerial Pension Plan (MPP) - MPP was a multi-employer defined contribution plan for eligible clergy from 1982 through 1986. Participants are allowed to withdraw up to 35% of their plan assets at retirement and the remaining assets are converted to a fixed rate annuity. The annuity for participants retiring before July 2003 has a guaranteed rate of 8%. The effect of this arrangement was to convert the plan to a guaranteed annuity plan. The Conference made no contributions to the plan in 2017 and 2016 because the plan was funded. It is possible that contributions will be required in the future if plan assets are insufficient to fund the annuities.

Clergy Retirement Security Program (CRSP) - CRSP is a multi-employer plan that provides pension coverage to eligible clergy effective January 1, 2007. CRSP is an amendment to and restatement of the former Ministerial Pension Plan. CRSP is both a defined benefit plan, which provides benefits based on years of credited service and a defined contribution plan, which provides a retirement account balance established and funded by the Conference. Contributions to the defined benefit plan will be actuarially determined and contributions to the defined contribution plan will be equal to 2% or 3% of the clergy's compensation, depending on the level of participation by the individual clergy person. The Conference made contributions of \$304,960 and \$303,110 for 2017 and 2016. The plan is funded at December 31, 2017.

Comprehensive Protection Plan (CPP) - CPP is a multi-employer health and welfare plan that provides death and disability benefits as well as minimum benefits related to pension coverage to clergy. The Conference made contributions of \$1,204,485 and \$1,216,223 for 2017 and 2016. The plan is funded at December 31, 2017.

United Methodist Personal Investment Plan (UMPIP) - UMPIP is an Internal Revenue Code section 403(b) defined contribution multi-employer pension plan and provides a retirement savings plan for eligible clergy and employees of the Conference. Employees may contribute up to the dollar limits which are set by law. For the first 3% of the employee contribution, the Conference contributes \$2 for each \$1 contributed by the employee. The Conference has no obligation for post-retirement contributions to the plan. The Conference made contributions of \$99,149 and \$92,500 for 2017 and 2016.

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NOTES TO FINANCIAL STATEMENTS

NOTE 9 - RETIREMENT BENEFITS - continued

Post-retirement Health Care Plan - The Conference sponsors a multiple employer defined benefit post-retirement health care plan (Plan) for retired clergy and their spouses (Participants) of the Conference and its local churches. A funding plan was presented and approved by the 2004 Annual Conference. The funding plan provides for participants retiring prior to 1984 not to pay for coverage and the cost for participants who have or will retire after 1983 to be based on years of service. The Conference made health care benefit payments of \$2,202,496 and \$2,089,664 in 2017 and 2016 that are included in retirement benefit cost expense.

The fair value of plan assets totaled \$0 and the Plan was unfunded at December 31, 2017 and 2016. However, the Conference has designated investment funds totaling approximately \$43,861,217 and \$37,368,351 at December 31, 2017 and 2016, for payment of the benefit obligation.

The employer recognizes the underfunded status of defined benefit post-retirement plans as a liability in its statement of financial position and the changes in the funded status in unrestricted net assets in the year in which the changes occur.

The following table presents a reconciliation of the changes in the benefit obligation for the years ended December 31, 2017 and 2016:

	<u>2017</u>	<u>2016</u>
Benefit obligation, beginning of year	\$ 42,760,689	\$ 45,039,387
Service cost	916,696	904,672
Interest cost	1,625,725	1,752,474
Benefit payments	(2,150,886)	(2,455,072)
Actuarial gain	<u>(2,363,388)</u>	<u>(2,480,772)</u>
Benefit obligation, end of year	<u>\$ 40,788,836</u>	<u>\$ 42,760,689</u>

Net Periodic Benefit (Income) Costs:

Components of periodic pension (income) cost for 2017 and 2016 are as follows:

	<u>2017</u>	<u>2016</u>
Service cost	\$ 916,696	\$ 904,672
Interest cost	1,625,725	1,752,474
Amortization of prior service benefit	(4,948,098)	(4,948,098)
Amortization of actuarial loss	<u>596,804</u>	<u>860,396</u>
	<u>\$ (1,808,873)</u>	<u>\$ (1,430,556)</u>

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NOTES TO FINANCIAL STATEMENTS

NOTE 9 - RETIREMENT BENEFITS - continued

The amounts recognized in post-retirement changes other than net periodic benefit costs are as follows:

	<u>2017</u>	<u>2016</u>
Amortization of actuarial loss	\$ 596,804	\$ 860,396
Amortization of prior service benefit	(4,948,098)	(4,948,098)
Actuarial gain	<u>2,363,388</u>	<u>2,480,772</u>
	<u>\$ (1,987,906)</u>	<u>\$ (1,606,930)</u>

The amounts recognized in unrestricted net assets but not yet recognized as components of net periodic benefit costs are as follows:

	<u>2017</u>	<u>2016</u>
Unamortized actuarial loss	\$ 7,443,040	\$ 10,403,232
Unamortized prior service benefit	<u>(5,659,183)</u>	<u>(10,607,281)</u>
	<u>\$ 1,783,857</u>	<u>\$ (204,049)</u>

The amounts in unrestricted net assets expected to be recognized in periodic benefit cost in 2018 and 2017 are as follows:

	<u>2018</u>	<u>2017</u>
Prior service benefit	\$ (1,728,908)	\$ (4,948,098)
Net actuarial loss	<u>314,183</u>	<u>596,804</u>
	<u>\$ (1,414,725)</u>	<u>\$ (4,351,294)</u>

The accumulated benefit obligation for the Plan was \$40,788,836 at December 31, 2017, and the expected projected benefit obligation for the Plan was \$48,474,899 at December 31, 2017. The accumulated benefit obligation for the Plan was \$42,760,689 at December 31, 2016, and the expected projected benefit obligation for the Plan was \$50,636,688 at December 31, 2016.

Actuarial assumptions applicable in the valuation are as follows:

	<u>2017</u>	<u>2016</u>
Discount rate to determine benefit obligations	3.45 %	3.90 %
Health care cost trend rates assumed for next year	6.25 %	6.50 %
Rate to which the cost trend rate is assumed to decline (ultimate trend rate)	5.00 %	5.00 %
Year that the rate reaches the ultimate trend rate	2023	2023

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NOTES TO FINANCIAL STATEMENTS

NOTE 9 - RETIREMENT BENEFITS - continued

Assumed health care rates have a significant effect on the amounts reported for the Plan. A one percent decrease in assumed health care cost trend rates would have the following effect:

	<u>2017</u>	<u>2016</u>
Effect on total service cost and interest cost components	\$ (33,122)	\$ (36,742)
Effect on accumulated post-retirement benefit obligation	(328,302)	(296,831)

Expected benefit payments at December 31, 2017 for the next five years and in aggregate for the five years thereafter are as follows:

2018	\$ 2,209,605
2019	2,302,647
2020	2,380,478
2021	2,460,520
2022	2,478,344
2023 - 2027	12,454,279

NOTE 10 - ENDOWMENT

The Conference's endowment consists of five individual funds established for a variety of purposes. The net assets associated with the funds included in the endowment are reported as permanently restricted net assets or designated net assets in the accompanying financial statements. The endowment includes both donor-restricted endowment funds and funds designated by Annual Conference to function as an endowment based on the existence or absence of donor-imposed restrictions.

Interpretation of Relevant Law

The Conference classifies as permanently restricted net assets the original value of contributions to the endowment, the original value of subsequent contributions to the endowment and accumulations to the endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as unrestricted or temporarily restricted in accordance with donor and Annual Conference stipulations.

Endowment net assets consist of the following types of funds as of December 31, 2017:

	<u>2017</u>			
	<u>Unrestricted: Designated</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Donor-restricted funds	\$ -	\$ 134,221	\$ 159,104	\$ 293,325
Annual Conference designated funds	<u>2,761,187</u>	<u>-</u>	<u>-</u>	<u>2,761,187</u>
Total	<u>\$ 2,761,187</u>	<u>\$ 134,221</u>	<u>\$ 159,104</u>	<u>\$ 3,054,512</u>

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NOTES TO FINANCIAL STATEMENTS

NOTE 10 - ENDOWMENT - continued

Changes in endowment net assets consist of the following for 2017:

	2017			Total
	Unrestricted	Temporarily Restricted	Permanently Restricted	
Endowment net assets, December 31, 2016	\$ 2,357,054	\$ 115,609	\$ 159,104	\$ 2,631,767
Investment income:				
Investment income	7,956	136	-	8,092
Net unrealized gain	<u>316,572</u>	<u>18,476</u>	<u>-</u>	<u>335,048</u>
Total	324,528	18,612	-	343,140
Contributions	79,605	-	-	79,605
Appropriation of endowment assets for expenditure	-	-	-	-
Total change in endowment fund	<u>404,133</u>	<u>18,612</u>	<u>-</u>	<u>422,745</u>
Endowment net assets, December 31, 2017	<u>\$ 2,761,187</u>	<u>\$ 134,221</u>	<u>\$ 159,104</u>	<u>\$ 3,054,512</u>

Endowment net assets consist of the following types of funds as of December 31, 2016:

	2016			Total
	Unrestricted: Designated	Temporarily Restricted	Permanently Restricted	
Donor-restricted funds	\$ -	\$ 115,609	\$ 159,104	\$ 274,713
Annual Conference designated funds	<u>2,357,054</u>	<u>-</u>	<u>-</u>	<u>2,357,054</u>
Total	<u>\$ 2,357,054</u>	<u>\$ 115,609</u>	<u>\$ 159,104</u>	<u>\$ 2,631,767</u>

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NOTES TO FINANCIAL STATEMENTS

NOTE 10 - ENDOWMENT - continued

Changes in endowment net assets consist of the following for 2016:

	<u>2016</u>			<u>Total</u>
	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	
Endowment net assets, December 31, 2015	\$ 2,408,750	\$ 108,222	\$ 159,104	\$ 2,676,076
Investment income:				
Investment income	10,090	574	-	10,664
Net unrealized gain	<u>98,210</u>	<u>6,813</u>	<u>-</u>	<u>105,023</u>
Total	108,300	7,387	-	115,687
Contributions	35,004	-	-	35,004
Appropriation of endowment assets for expenditure	(195,000)	-	-	(195,000)
Total change in endowment fund	<u>(51,696)</u>	<u>7,387</u>	<u>-</u>	<u>(44,309)</u>
Endowment net assets, December 31, 2016	<u>\$ 2,357,054</u>	<u>\$ 115,609</u>	<u>\$ 159,104</u>	<u>\$ 2,631,767</u>

Investment and Spending Policy

The Conference has investment and spending policies for endowment assets that aim to maximize funds available for mission consistent with the preservation of capital, the Policies Relative to Socially Responsible Investments and the Social Principles of the Church. Actual returns in any given year may vary.

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 to achieve its long-term return objectives within prudent risk constraints.

The Conference accumulates capital appreciation and investment yields to the amount specified for each endowment fund. Upon attainment of the stated corpus, the Conference appropriates for distribution in accordance with the respective donor and Annual Conference stipulations. This is consistent with the Organization's objective to maximize funds available for the mission of the Church.

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NOTES TO FINANCIAL STATEMENTS

NOTE 11 - OPERATING LEASES

The Conference leases office space and equipment under noncancellable operating leases expiring at various dates through March 2023.

Future minimum rental payments for all operating lease payments are as follows:

2018	\$ 520,651
2019	529,041
2020	541,117
2021	556,893
2022	573,103
Thereafter	<u>146,377</u>
	<u>\$ 2,867,182</u>

A portion of the leased space is subleased to an affiliated not-for-profit organization. The above lease will be offset by payments due under the sublease as follows:

2018	\$ 149,653
2019	153,768
2020	157,997
2021	162,335
2022	<u>166,781</u>
	<u>\$ 790,534</u>

Rental expense for all operating leases was \$509,623 for the year ended December 31, 2017 and \$407,124 for the year ended December 31, 2016. Rental income under the sublease was \$225,693 for the year ended December 31, 2017 and \$108,383 for the year ended December 31, 2016.