



2016 Audited Financial Statements

CONFERENCE TREASURER NORTH GEORGIA CONFERENCE, UNITED  
METHODIST CHURCH

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**BRADY WARE**  
& SCHOENFELD

## INDEPENDENT AUDITORS' REPORT

To the Council on Finance and Administration  
North Georgia Conference, United Methodist Church:

We have audited the accompanying financial statements of the Conference Treasurer of the North Georgia Conference of the United Methodist Church, which comprise the statement of financial position as of December 31, 2016 and 2015, and the related statements of activities and cash flows for the year 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 audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the 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 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 we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

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## **Opinion**

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

## **Prior Period Financial Statements**

The financial statements as of December 31, 2015, were audited by GrossDukeNelson & Co, PC, who merged with Brady, Ware & Schoenfeld, Inc. as of January 1, 2017, and whose report dated September 30, 2016, expressed an unmodified opinion on those statements.



Atlanta, Georgia  
October 12, 2017

CONFERENCE TREASURER  
NORTH GEORGIA CONFERENCE, UNITED METHODIST CHURCH

STATEMENTS OF FINANCIAL POSITION

DECEMBER 31, 2016 AND 2015

	<u>2016</u>	<u>2015</u>
<b>ASSETS</b>		
Cash	\$ 5,476,614	\$ 5,009,453
Apportionments receivable	1,030,111	577,441
Accounts receivable	204,042	261,139
Investments	60,968,569	60,109,609
Prepaid expenses and other	788,966	813,928
Property held for resale	6,699,900	74,900
Property and equipment, net	<u>973,397</u>	<u>1,082,568</u>
Total Assets	<u>\$ 76,141,599</u>	<u>\$ 67,929,038</u>
<b>LIABILITIES AND NET ASSETS</b>		
<b>LIABILITIES:</b>		
Accounts payable and accrued expenses	\$ 1,759,136	\$ 1,572,817
Notes payable	412,696	-
Unfunded postretirement healthcare benefit plan	<u>42,760,689</u>	<u>45,039,387</u>
Total Liabilities	<u>44,932,521</u>	<u>46,612,204</u>
<b>COMMITMENTS (Notes 9 and 11)</b>		
<b>NET ASSETS:</b>		
Unrestricted:		
Undesignated	3,397,454	3,023,413
Designated	24,955,745	15,432,637
Temporarily restricted	2,696,775	2,701,680
Permanently restricted	<u>159,104</u>	<u>159,104</u>
Total Net Assets	<u>31,209,078</u>	<u>21,316,834</u>
Total Liabilities and Net Assets	<u>\$ 76,141,599</u>	<u>\$ 67,929,038</u>

The accompanying notes are an integral part of these financial statements.

CONFERENCE TREASURER  
NORTH GEORGIA CONFERENCE, UNITED METHODIST CHURCH

STATEMENT OF ACTIVITIES

FOR THE YEAR ENDED DECEMBER 31, 2016

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
REVENUE AND SUPPORT:				
Apportionments	\$ 20,857,399	\$ -	\$ -	\$ 20,857,399
Contributions	12,132,602	200,925	-	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	413,728	(413,728)	-	-
Total Revenue and Support	<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	1,299,996	-	-	1,299,996
Premiums remitted	17,091,896	-	-	17,091,896
Retirement benefit cost	8,205,334	-	-	8,205,334
Support for affiliated organizations	2,218,946	-	-	2,218,946
Total Expenses	<u>43,398,292</u>	<u>-</u>	<u>-</u>	<u>43,398,292</u>
Change in net assets before actuarial loss in postretirement healthcare benefit plan	11,504,079	(4,905)	-	11,499,174
Actuarial loss in postretirement 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>
NET ASSETS, END OF YEAR	<u>\$ 28,353,199</u>	<u>\$ 2,696,775</u>	<u>\$ 159,104</u>	<u>\$ 31,209,078</u>

The accompanying notes are an integral part of these financial statements.

CONFERENCE TREASURER  
NORTH GEORGIA CONFERENCE, UNITED METHODIST CHURCH

STATEMENT OF ACTIVITIES

FOR THE YEAR ENDED DECEMBER 31, 2015

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
REVENUE AND SUPPORT:				
Apportionments	\$ 21,606,660	\$ -	\$ -	\$ 21,606,660
Contributions	2,643,822	449,261	-	3,093,083
Insurance premiums	16,467,913	-	-	16,467,913
Investment income	215,719	29,638	-	245,357
Net realized and unrealized losses on investments	(1,657,711)	(34,012)	-	(1,691,723)
Other revenue	9,566,641	-	-	9,566,641
Net assets released from restrictions:				
Restrictions satisfied by payments	466,245	(466,245)	-	-
Total Revenue and Support	<u>49,309,289</u>	<u>(21,358)</u>	<u>-</u>	<u>49,287,931</u>
EXPENSES:				
Ministerial support	2,575,264	-	-	2,575,264
Annual conference administration	3,973,338	-	-	3,973,338
Connectional ministries	1,591,375	-	-	1,591,375
General and jurisdictional apportionments	5,761,828	-	-	5,761,828
Other conference missions	1,355,244	-	-	1,355,244
Church development	2,076,414	-	-	2,076,414
Premiums remitted	16,613,047	-	-	16,613,047
Retirement benefit cost	6,397,944	-	-	6,397,944
Support for affiliated organizations	2,631,848	-	-	2,631,848
Total Expenses	<u>42,976,302</u>	<u>-</u>	<u>-</u>	<u>42,976,302</u>
Change in net assets before actuarial loss in postretirement healthcare benefit plan	6,332,987	(21,358)	-	6,311,629
Actuarial loss in postretirement healthcare benefit plan	(1,892,093)	-	-	(1,892,093)
CHANGE IN NET ASSETS	4,440,894	(21,358)	-	4,419,536
NET ASSETS, BEGINNING OF YEAR	<u>14,015,156</u>	<u>2,723,038</u>	<u>159,104</u>	<u>16,897,298</u>
NET ASSETS, END OF YEAR	<u>\$ 18,456,050</u>	<u>\$ 2,701,680</u>	<u>\$ 159,104</u>	<u>\$ 21,316,834</u>

The accompanying notes are an integral part of these financial statements.

CONFERENCE TREASURER  
NORTH GEORGIA CONFERENCE, UNITED METHODIST CHURCH

STATEMENTS OF CASH FLOWS

FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015

	<u>2016</u>	<u>2015</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Change in net assets	\$ 9,892,244	\$ 4,419,536
Adjustment to reconcile change in net assets to net cash (used in) provided by operating activities:		
Depreciation	129,115	155,595
Net realized and unrealized (gains) losses on investments	(4,520,130)	1,691,722
Gain on disposal of property	-	(1,144,787)
Non cash contribution of property held for resale	(6,197,632)	-
Actuarial gain (loss) in postretirement healthcare benefit plan	(2,480,772)	(600,126)
(Increase) decrease in:		
Apportionments receivable	(452,670)	581,377
Accounts receivable	57,097	453,930
Prepaid expenses and other	24,962	(74,162)
Increase (decrease) in:		
Accounts payable and accrued expenses	186,319	(142,551)
Unfunded postretirement healthcare benefit plan	<u>202,074</u>	<u>(1,064,267)</u>
Net Cash (Used In) Provided By Operating Activities	<u>(3,159,393)</u>	<u>4,276,267</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Proceeds from sale of investments	21,749,326	24,696,277
Purchase of investments	(18,088,156)	(32,719,778)
Proceeds from disposal of property and equipment	-	2,668,836
Purchase of property and equipment	<u>(19,944)</u>	<u>(523,281)</u>
Net Cash Provided By (Used In) Investing Activities	<u>3,641,226</u>	<u>(5,877,946)</u>
CASH FLOWS FROM FINANCING ACTIVITIES:		
Repayment of notes payable	(14,672)	(1,056,281)
Proceeds from loan receivable, affiliated organization	<u>-</u>	<u>1,403,224</u>
Net Cash Provided By Financing Activities	<u>(14,672)</u>	<u>346,943</u>
NET INCREASE (DECREASE) IN CASH	467,161	(1,254,736)
CASH, BEGINNING OF YEAR	<u>5,009,453</u>	<u>6,264,189</u>
CASH, END OF YEAR	<u>\$ 5,476,614</u>	<u>\$ 5,009,453</u>
SUPPLEMENTAL CASH FLOW INFORMATION:		
Cash paid during the year for interest	<u>\$ 14,951</u>	<u>\$ 6,173</u>
NON CASH TRANSACTIONS:		
Assumption of notes payable with property held for resale	<u>\$ 427,368</u>	<u>\$ -</u>

The accompanying notes are an integral part of these financial statements.



CONFERENCE TREASURER  
NORTH GEORGIA CONFERENCE, UNITED METHODIST CHURCH

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2016 AND 2015

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

Organization and Activities:

The North Georgia Conference represents one of the basic organizational bodies in the global United Methodist Church. The Conference serves as the denominational arm for approximately 850 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.

CONFERENCE TREASURER  
NORTH GEORGIA CONFERENCE, UNITED METHODIST CHURCH

NOTES TO FINANCIAL STATEMENTS, Continued

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued:

Contributions, Continued:

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 2016 and 2015, contributions totaling \$225,710 and \$369,000, respectively, 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 Statement of Financial Position. Unrealized gains and losses are included in the change in net assets.

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.

Accounts Receivable:

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

CONFERENCE TREASURER  
NORTH GEORGIA CONFERENCE, UNITED METHODIST CHURCH

NOTES TO FINANCIAL STATEMENTS, Continued

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued:

Income Taxes:

The Conference is exempt from federal income taxes pursuant to Section 501(c)(3) of the Internal Revenue Code and the Internal Revenue Service Group Exemption ruling for the United Methodist Church. As a religious organization, the Conference is not required to file tax returns if it has no unrelated business income. The Conference did not have any unrelated business income during the years 2016 and 2015. 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 for the years 2016 and 2015.

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 revenues and expenses during the reporting period. Actual results could differ from those estimates.

Subsequent Events:

The Conference has evaluated subsequent events through October 12, 2017, the date which the financial statements were available to be issued.

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. Cash includes deposits at a financial institution totaling \$5,476,614 at December 31, 2016 which exceed federally insured 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.

CONFERENCE TREASURER  
NORTH GEORGIA CONFERENCE, UNITED METHODIST CHURCH

NOTES TO FINANCIAL STATEMENTS, Continued

**NOTE 3 – FAIR VALUE MEASUREMENTS:**

The fair value of the Conference assets measured on a recurring basis at December 31, 2016 and 2015 are as follows:

	December 31, 2016			
	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
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	-	15,371,219	1,533,234	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	14,384	-	-	14,384
Total Investments	<u>\$ 8,640,358</u>	<u>\$ 16,986,835</u>	<u>\$ 35,341,376</u>	<u>\$ 60,968,569</u>
Property Held for Resale	<u>\$ -</u>	<u>\$ 6,699,900</u>	<u>\$ -</u>	<u>\$ 6,699,900</u>
	December 31, 2015			
	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Investments:				
Certificates of deposit	\$ -	\$ 102,189	\$ -	\$ 102,189
Georgia United Methodist Foundation, Inc.:				
Certificates of deposit	-	2,849,180	-	2,849,180
Fixed Income Funds	6,405,728	-	-	6,405,728
Equity Funds	-	10,862,935	1,683,767	12,546,702
Money Market Funds	1,545,894	-	-	1,545,894
Wespath Benefits and Investments:				
Multiple Asset Funds	-	-	35,852,453	35,852,453
Superannuate Funds	-	-	223,724	223,724
United Methodist Development Fund:				
Money Market Funds	510,136	-	-	510,136
Equity Fund	59,415	-	-	59,415
Common Stock	14,188	-	-	14,188
Total Investments	<u>\$ 8,535,361</u>	<u>\$ 13,814,304</u>	<u>\$ 37,759,944</u>	<u>\$ 60,109,609</u>
Property Held for Resale	<u>\$ -</u>	<u>\$ 74,900</u>	<u>\$ -</u>	<u>\$ 74,900</u>

CONFERENCE TREASURER  
NORTH GEORGIA CONFERENCE, UNITED METHODIST CHURCH

NOTES TO FINANCIAL STATEMENTS, Continued

NOTE 3 – FAIR VALUE MEASUREMENTS, Continued:

Assets carried at fair value are classified and disclosed in one of the following three 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.

Level 3 - Valuations are based on prices or valuation techniques that require significant assumptions that are not observable in the market. The Conference's Level 3 assets are held with Wespeth Benefits and Investments ("Wespeth") and Georgia United Methodist Foundation, Inc. under investment agreements. Investments are pooled into larger investment funds. Wespeth investments are comprised of approved equity, fixed income and money market instruments. Georgia United Methodist Foundation, Inc. investments are comprised of approved equity instruments in accordance with investment objectives.

The table below presents a reconciliation of gains and losses for all Level 3 investments measured at fair value on a recurring basis using unobservable inputs for 2016 and 2015.

	<u>2016</u>	<u>2015</u>
Balance, beginning of year	\$ 37,759,944	\$ 32,667,081
Total realized and unrealized gains (losses)	3,071,165	(1,204,751)
Total purchases	11,562,171	20,401,310
Total sales	<u>(17,051,904)</u>	<u>(14,103,696)</u>
Balance, end of year	<u>\$ 35,341,376</u>	<u>\$ 37,759,944</u>

The Conference has designated investment funds at December 31, 2016 for payment of the following obligations:

	<u>Amount</u>
Postretirement health care plan benefits	\$ 37,368,351
Temporarily restricted net assets	2,139,035
Permanently restricted net assets	<u>159,104</u>
Total	<u>\$ 39,666,490</u>

CONFERENCE TREASURER  
NORTH GEORGIA CONFERENCE, UNITED METHODIST CHURCH

NOTES TO FINANCIAL STATEMENTS, Continued

NOTE 4 – INVESTMENTS:

Investments consist of the following at December 31, 2016 and 2015:

	<u>2016</u>	<u>2015</u>
Certificates of deposit	\$ 102,330	\$ 102,189
Georgia United Methodist Foundation, Inc.:		
Certificates of deposit	1,513,286	2,849,180
Fixed Income Funds	6,632,496	6,405,728
Equity Funds	16,904,453	12,546,702
Money Market Funds	1,416,428	1,545,894
Wespath Benefits and Investments:		
Multiple Asset Funds	33,707,415	35,852,453
Superannuate Funds	100,727	223,724
United Methodist Development Fund:		
Money Market Funds	513,969	510,136
Equity Fund	63,081	59,415
Common Stock	14,384	14,188
Total Investments	<u>\$ 60,968,569</u>	<u>\$ 60,109,609</u>

NOTE 5 – PROPERTY AND EQUIPMENT:

Property and equipment consist of the following at December 31, 2016 and 2015:

	<u>2016</u>	<u>2015</u>
Episcopal Residence	\$ 811,268	\$ 811,268
Leasehold improvements	263,758	243,814
Furniture and fixtures	195,420	195,420
Office equipment	130,703	130,703
Computer equipment	<u>122,691</u>	<u>122,691</u>
	1,523,840	1,503,896
Less accumulated depreciation	<u>(550,443)</u>	<u>(421,327)</u>
Property and equipment, net	<u>\$ 973,397</u>	<u>\$ 1,082,569</u>

CONFERENCE TREASURER  
NORTH GEORGIA CONFERENCE, UNITED METHODIST CHURCH

NOTES TO FINANCIAL STATEMENTS, Continued

NOTE 6 – PROPERTY HELD FOR RESALE:

Property held for resale 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).

NOTE 7 – NOTES PAYABLE:

Notes payable consist of two notes to a financial institution. The notes are payable in equal installments including interest at 5.25% with two balloon payments due at maturity in October 2018 totaling \$375,915. The notes are collateralized by property held for resale (See Note 6).

Scheduled aggregate maturities at December 31, 2016 are as follows:

<u>Year</u>	<u>Amount</u>
2017	\$ 20,604
2018	<u>392,092</u>
	<u>\$ 412,696</u>

Interest expense totaled \$14,951 and \$6,173 for 2016 and 2015, respectively.

NOTE 8 – RELATED PARTIES 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 \$69,930 and \$74,880 for the Office of the Resident Bishop at December 31, 2016 and 2015, respectively.

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 postretirement health care plan.

CONFERENCE TREASURER  
NORTH GEORGIA CONFERENCE, UNITED METHODIST CHURCH

NOTES TO FINANCIAL STATEMENTS, Continued

NOTE 9 – RETIREMENT BENEFITS, Continued:

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 2016 and 2015 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.

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.



CONFERENCE TREASURER  
NORTH GEORGIA CONFERENCE, UNITED METHODIST CHURCH

NOTES TO FINANCIAL STATEMENTS, Continued

NOTE 9 – RETIREMENT BENEFITS, Continued:

***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 \$10,000,000 for 2016 and \$7,959,245 for 2015. 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 2016 and 2015 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 \$303,110 for 2016 and \$295,982 for 2015. The plan is funded at December 31, 2016.

CONFERENCE TREASURER  
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NOTES TO FINANCIAL STATEMENTS, Continued

NOTE 9 – RETIREMENT BENEFITS, Continued:

***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 \$1,216,223 for 2016 and \$1,217,140 for 2015. The plan is funded at December 31, 2016.

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 postretirement contributions to the plan. The Conference made contributions of \$92,500 for 2016 and \$63,040 for 2015.

Postretirement Health Care Plan:

The Conference sponsors a multiple employer defined benefit postretirement 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 \$2,089,664 in 2016 and \$1,993,887 in 2015 that are included in retirement benefit cost expense.

The Conference has designated investment funds totaling approximately \$37,368,351 and \$35,368,000 at December 31, 2016 and 2015, respectively, for payment of these benefits. However, the investments are not considered plan assets for purposes of determining the funded status of the Plan. The fair value of the plan assets totaled \$0 and the plan was unfunded at December 31, 2016 and 2015.

***Benefit Obligations.***

The employer recognizes the underfunded status of defined benefit postretirement 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.

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NOTES TO FINANCIAL STATEMENTS, Continued

NOTE 9 – RETIREMENT BENEFITS, Continued:

**Postretirement Health Care Plan, *Benefit Obligations, Continued.***

The following table presents a reconciliation of the changes in the benefit obligation for the years ended December 31, 2016 and 2015.

	<u>2016</u>	<u>2015</u>
Benefit obligation, beginning of year	\$45,039,387	\$46,703,780
Service cost	904,672	1,047,051
Interest cost	1,752,474	1,658,845
Benefit payments	(2,455,072)	(2,511,955)
Prior service benefit	-	(1,258,208)
Actuarial gain	<u>(2,480,772)</u>	<u>(600,126)</u>
Benefit obligation, end of year	<u><u>\$42,760,689</u></u>	<u><u>\$45,039,387</u></u>

***Net Periodic Benefit (Income) Costs.***

Components of periodic pension (income) cost for 2016 and 2015 are as follows:

	<u>2016</u>	<u>2015</u>
Service cost	\$ 904,672	\$ 1,047,051
Interest cost	1,752,474	1,658,845
Amortization of prior service benefit	(4,948,098)	(4,825,105)
Amortization of actuarial loss	<u>860,396</u>	<u>1,074,678</u>
	<u><u>\$(1,430,556)</u></u>	<u><u>\$(1,044,531)</u></u>

The amounts recognized in postretirement changes other than net periodic benefit costs are as follows:

	<u>2016</u>	<u>2015</u>
Prior service benefit	\$ -	\$ 1,258,208
Amortization of actuarial loss	860,396	1,074,678
Amortization of prior service benefit	(4,948,098)	(4,825,105)
Actuarial gain	<u>2,480,772</u>	<u>600,126</u>
	<u><u>\$(1,606,930)</u></u>	<u><u>\$(1,892,093)</u></u>

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NOTES TO FINANCIAL STATEMENTS, Continued

NOTE 9 – RETIREMENT BENEFITS, Continued:

**Postretirement Health Care Plan, *Net Periodic Benefit (Income) Costs, Continued.***

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

	<u>2016</u>	<u>2015</u>
Unamortized actuarial loss	\$ 10,403,232	\$ 13,744,400
Unamortized prior service benefit	<u>(10,607,281)</u>	<u>(15,555,379)</u>
	<u>\$ (204,049)</u>	<u>\$ (1,810,979)</u>

The amounts in unrestricted net assets expected to be recognized in periodic benefit cost in 2016 and 2015 are as follows:

	<u>2017</u>	<u>2016</u>
Prior service benefit	\$ (4,948,098)	\$ (4,948,098)
Net actuarial loss	<u>596,804</u>	<u>860,396</u>
	<u>\$ (4,351,294)</u>	<u>\$ (4,087,702)</u>

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. The accumulated benefit obligation for the Plan was \$45,039,387 at December 31, 2015 and the expected projected benefit obligation for the Plan was \$53,097,339 at December 31, 2015.

***Assumptions.***

Actuarial assumptions applicable in the valuation are as follows:

	<u>2016</u>	<u>2015</u>
Discount Rate to determine benefit obligations	3.90%	4.00%
Health care cost trend rates assumed for next year	6.50%	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	2019

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NOTES TO FINANCIAL STATEMENTS, Continued

NOTE 9 – RETIREMENT BENEFITS, Continued:

**Postretirement Health Care Plan, Assumptions, *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>2016</u>	<u>2015</u>
Effect on total service cost and interest cost components	\$ (36,742)	\$ (39,417)
Effect on accumulated postretirement benefit obligation	\$(296,831)	\$(317,296)

Expected benefit payments at December 31, 2016 for the next five years and in aggregate for the five years thereafter are as follows:

<u>Year</u>	<u>Amount</u>
2017	\$ 2,150,886
2018	\$ 2,225,216
2019	\$ 2,325,599
2020	\$ 2,410,243
2021	\$ 2,496,833
2022-2026	\$13,056,577

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.

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NOTES TO FINANCIAL STATEMENTS, Continued

NOTE 10 – ENDOWMENT, Continued:

*Interpretation of Relevant Law, Continued.*

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, 2016:

	<u>Unrestricted: Designated</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
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>

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

	<u>Unrestricted Designated</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment net assets, December 31, 2015	<u>\$2,408,750</u>	<u>\$108,222</u>	<u>\$159,104</u>	<u>\$2,676,076</u>
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	<u>(195,000)</u>	<u>-</u>	<u>-</u>	<u>(195,000)</u>
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>

CONFERENCE TREASURER  
NORTH GEORGIA CONFERENCE, UNITED METHODIST CHURCH

NOTES TO FINANCIAL STATEMENTS, Continued

NOTE 10 – ENDOWMENT, Continued:

*Interpretation of Relevant Law, Continued.*

Endowment net assets consist of the following types of funds at December 31, 2015:

	<u>Unrestricted:</u> <u>Designated</u>	<u>Temporarily</u> <u>Restricted</u>	<u>Permanently</u> <u>Restricted</u>	<u>Total</u>
Donor-restricted funds	\$ -	\$ 108,222	\$ 159,104	\$ 267,326
Annual Conference designated funds	<u>2,408,750</u>	<u>-</u>	<u>-</u>	<u>2,408,750</u>
Total	<u>\$2,408,750</u>	<u>\$108,222</u>	<u>\$159,104</u>	<u>\$2,676,076</u>

Changes in endowment net assets consist of the following for 2015:

	<u>Unrestricted</u> <u>Designated</u>	<u>Temporarily</u> <u>Restricted</u>	<u>Permanently</u> <u>Restricted</u>	<u>Total</u>
Endowment net assets, December 31, 2014	<u>\$2,461,438</u>	<u>\$109,783</u>	<u>\$159,104</u>	<u>\$2,730,325</u>
Investment income:				
Investment income	12,203	827	-	13,030
Net unrealized loss	<u>(75,424)</u>	<u>(2,388)</u>	<u>-</u>	<u>(77,812)</u>
Total	<u>(63,221)</u>	<u>(1,561)</u>	<u>-</u>	<u>(64,782)</u>
Contributions	10,533	-	-	10,533
Appropriation of endowment assets for expenditure	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total change in endowment fund	<u>(52,688)</u>	<u>(1,561)</u>	<u>-</u>	<u>(54,249)</u>
Endowment net assets, December 31, 2015	<u>\$2,408,750</u>	<u>\$108,222</u>	<u>\$159,104</u>	<u>\$2,676,076</u>

CONFERENCE TREASURER  
NORTH GEORGIA CONFERENCE, UNITED METHODIST CHURCH

NOTES TO FINANCIAL STATEMENTS, Continued

NOTE 10 – ENDOWMENT, Continued:

***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.

NOTE 11 – 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:

<u>Year</u>	<u>Amount</u>
2017	\$ 506,109
2018	520,651
2019	529,041
2020	541,117
2021	556,893
Thereafter	<u>719,480</u>
	<u><u>\$3,373,291</u></u>



CONFERENCE TREASURER  
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NOTES TO FINANCIAL STATEMENTS, Continued

NOTE 11 – LEASES, Continued:

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:

<u>Year</u>	<u>Amount</u>
2017	\$ 145,641
2018	149,653
2019	153,768
2020	157,997
2021	162,335
Thereafter	<u>166,781</u>
	<u>\$ 936,175</u>

For the year ended December 31, 2016, rental expense for all operating leases was \$407,124 and rental income under the sublease was \$108,383.