

UPPER NEW YORK ANNUAL
CONFERENCE OF THE UNITED
METHODIST CHURCH

COMBINED FINANCIAL STATEMENTS

December 31, 2018

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BOWERS & COMPANY
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CERTIFIED PUBLIC ACCOUNTANTS • BUSINESS CONSULTANTS

INDEPENDENT AUDITORS' REPORT

**MANAGEMENT OF
UPPER NEW YORK ANNUAL CONFERENCE
OF THE UNITED METHODIST CHURCH**

We have audited the accompanying combined financial statements of the **UPPER NEW YORK ANNUAL CONFERENCE OF THE UNITED METHODIST CHURCH** (a nonprofit organization) which comprise the combined statements of financial position as of December 31, 2018 and the related combined statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the combined financial statements.

Management's Responsibility for the Combined Financial Statements

Management is responsible for the preparation and fair presentation of these combined 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 combined 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 combined 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 combined financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the combined financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the combined 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 combined financial statements to design audit procedures that are appropriate in the circumstances, but not for 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 combined financial statements.

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

Basis for Qualified Opinion

As more fully described in Note 11 to the combined financial statements, the Upper York Annual Conference did not obtain a valuation of its postretirement health benefits for the year ending December 31, 2017. By not obtaining a valuation for 2017, a liability cannot be determined at December 31, 2017, thus resulting in the inability to record the 2018 current year activity amount in the combined financial statements for the year ending December 31, 2018. The effect on the 2018 combined statements of activities has not been determined. The last valuation previously obtained was as of December 31, 2016. The Conference elected to record a liability at December 31, 2018 for the unfunded status of its postretirement health benefit plan of \$21,833,147. In our opinion, a liability and expense for postretirement health benefits and related disclosures are required to be recorded each year to conform with accounting principles generally accepted in the United States of America.

Qualified Opinion

In our opinion, except for the effects of the matter discussed in the Basis for Qualified Opinion paragraph, the combined financial statements referred to in the first paragraph present fairly, in all material respects, the combined financial position of the Upper New York Annual Conference of The United Methodist Church as of 2018 and the changes in its net assets, functional expenses, and cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Supplementary Information

Our audits were conducted for forming an opinion on the combined financial statements. The supplementary information on pages twenty-four and twenty-five is presented for additional analysis and is not a required part of the basic combined 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 combined financial statements. The information has been subjected to the auditing procedures applied in the audit of the combined financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the combined financial statements or to the combined financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, except for the effects of the matters described in the Basis for Qualified Opinion paragraphs as might have been determined to be necessary, the information is fairly stated in all material respects in relation to the combined financial statements as a whole.

Bowers & Company

Syracuse, New York
August 5, 2021

**UPPER NEW YORK ANNUAL CONFERENCE
OF THE UNITED METHODIST CHURCH**

AUDITED COMBINED FINANCIAL STATEMENTS

COMBINED STATEMENT OF FINANCIAL POSITION

December 31, 2018

	ASSETS					
	General Funds	Investment Funds	Trustee Funds	CBOPH Funds	3rd Party Funds	Combined
ASSETS						
Cash and Cash Equivalents	\$ 3,921,041	\$ 0	\$ 0	\$ 0	\$ 0	\$ 3,921,041
Investments	891,094	8,338,101	0	29,547,207	0	38,776,402
Investments - Custodial Accounts	0	0	1,214,282	0	0	1,214,282
Notes Receivable	0	0	124,783	0	0	124,783
Receivables - Benefits, Insurance and Other	637,523	0	9,453	149,004	0	795,980
Prepaid Expenses and Other Assets	30,481	0	14,711	0	0	45,192
InterConference Funds	4,392,330	(8,338,101)	3,612,225	158,496	175,050	0
Property and Equipment - Net	5,354,302	0	6,000,954	0	0	11,355,256
TOTAL ASSETS	\$ 15,226,771	\$ 0	\$ 10,976,408	\$ 29,854,707	\$ 175,050	\$ 56,232,936
LIABILITIES						
Accounts Payable and Accrued Expenses	\$ 1,474,035	\$ 0	\$ 0	\$ 21,833,147	\$ 0	\$ 23,307,182
Pass-Through Liabilities	3,169	0	0	0	0	3,169
TOTAL LIABILITIES	1,477,204	0	0	21,833,147	0	23,310,351
NET ASSETS						
Without Donor Restrictions	1,034,149	0	0	4,976,802	0	6,010,951
Undesignated	5,354,303	0	6,000,954	0	0	11,355,257
Undesignated - PPE	2,536,541	0	2,193,865	1,493,827	175,050	6,399,283
Designated	8,924,993	0	8,194,819	6,470,629	175,050	23,765,491
With Donor Restrictions	4,415,266	0	1,474,644	107,538	0	5,997,448
Purpose Restrictions	409,308	0	1,306,945	1,443,393	0	3,159,646
Perpetual in Nature	4,824,574	0	2,781,589	1,550,931	0	9,157,094
TOTAL NET ASSETS	13,749,567	0	10,976,408	8,021,560	175,050	32,922,585
TOTAL LIABILITIES AND NET ASSETS	\$ 15,226,771	\$ 0	\$ 10,976,408	\$ 29,854,707	\$ 175,050	\$ 56,232,936

See notes to combined financial statements.

**UPPER NEW YORK ANNUAL CONFERENCE
OF THE UNITED METHODIST CHURCH**

COMBINED STATEMENT OF ACTIVITIES

Year Ended December 31, 2018

	Without Donor Restrictions	With Donor Restrictions	Total
REVENUES AND SUPPORT			
Ministry Shares	\$ 8,345,120	\$ 0	\$ 8,345,120
Donations and Grants	316,182	298,498	614,680
Direct Billed Benefits to Member Churches	7,021,987	0	7,021,987
Events, Registrations, and Other Fees	449,241	0	449,241
Camping Revenues	2,093,088	0	2,093,088
Sale of Churches and Real Estate	1,750,207	0	1,750,207
Rents, Reimbursements and Other Miscellaneous Revenue	581,449	0	581,449
Investment Income	(1,876,560)	(461,957)	(2,338,517)
Net Assets Released from Restrictions	561,379	(561,379)	0
Total Revenues and Support	<u>19,242,093</u>	<u>(724,838)</u>	<u>18,517,255</u>
EXPENSES			
Program Services			
Connectional Ministries	3,930,890	0	3,930,890
Ministriel Support	3,047,707	0	3,047,707
Camps and Retreat Ministries	3,901,084	0	3,901,084
Other Missional	289,073	0	289,073
Support Services			
Trustees	1,087,601	0	1,087,601
Conference Board of Pension and Health	11,023,979	0	11,023,979
General and Administrative	1,789,787	0	1,789,787
Total Expenses	<u>25,070,121</u>	<u>0</u>	<u>25,070,121</u>
Change in Net Assets Before Post Retirement Healthcare Liability	(5,828,028)	(724,838)	(6,552,866)
Post Retirement Healthcare Benefit Plan Liability	<u>(21,833,147)</u>	<u>0</u>	<u>(21,833,147)</u>
Change In Net Assets	(27,661,175)	(724,838)	(28,386,013)
Net Assets, Beginning of Year	39,749,269	23,794,429	63,543,698
Prior Period Adjustment - Accumulated Depreciation	(2,235,100)	0	(2,235,100)
Interfund Reclassifications - PPE	<u>13,912,497</u>	<u>(13,912,497)</u>	<u>0</u>
Net Assets, End of Year	<u>\$ 23,765,491</u>	<u>\$ 9,157,094</u>	<u>\$ 32,922,585</u>

See notes to combined financial statements.

**UPPER NEW YORK ANNUAL CONFERENCE
OF THE UNITED METHODIST CHURCH**

COMBINED STATEMENT OF FUNCTIONAL EXPENSES

Year Ended December 31, 2018

	Program Services				Support Services			Total Expenses
	Connectional Ministries	Ministerial Support	Camps & Retreat Ministries	Other Missionary Ministries	Trustees	CBOPH Expenses	General and Administrative	
General Church Ministry Support	\$ 2,099,911	\$ 91	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 2,100,002
Salaries, Wages & Housing Allowances	592,978	1,418,682	1,325,290	28,310	0	0	999,159	4,364,419
Employee Benefits and Payroll Taxes	199,160	491,731	397,240	2,311	0	0	389,736	1,480,178
Health Insurance & Retirement Benefits Billed to Member Churches	0	0	0	0	0	10,852,927	0	10,852,927
Grants and Moving Expenses	1,454	40,507	0	0	0	0	0	41,961
Support, Health and Pension Grants	314,267	0	170	6,200	22,880	158,675	5,887	508,079
Professional Development, Training, Employment Fees	34,819	18,341	26,127	0	0	7,640	8,288	95,215
Program, Events, Honorariums, District Block Grants	84,031	208,131	25,517	232,715	0	0	810	551,204
Equitable Compensation & Sustaination Grants	22,500	128,977	0	187	0	0	0	151,664
Pastoral Care, Assessments, Education, & Ordained Ministry Expenses	0	160,991	0	0	257	0	0	161,248
Travel, Mileage & Hospitality & Food Expense	305,972	275,746	303,769	10,329	0	0	29,599	925,415
Office, Equipment Lease, Printing Expense & Postage	14,082	17,119	42,683	1,422	3,410	0	63,567	142,283
Program Supplies & Other Service Expenses	33,905	8,651	98,236	0	0	0	3,857	144,649
Computer Maintenance & Software	280	1,825	31,648	360	0	0	34,769	68,882
Professional, Legal, Other Contractual Fees	139,478	34,574	210,657	3,717	110,337	4,737	110,423	613,923
Utilities & Telecommunications Expense	1,901	496	154,480	0	0	0	3,272	160,149
Property Repairs & Maintenance	8,214	36,976	293,226	0	49,937	0	64,187	452,540
Vehicles & Equipment R&M Expense	1,462	2,310	233,526	0	101,124	0	43,406	381,828
Property, Vehicle & Liability Insurances	18,424	20,559	381,078	1,099	1,511	0	27,086	449,757
Rent & Property Tax Expense	2,360	1,241	77,768	0	304,267	0	4,818	390,454
Depreciation Expense	6,000	104,036	0	1,360	3,052	0	0	114,448
Expenditures	0	124	218,703	0	221,349	0	750	440,926
Other	2,407	0	25,045	0	259,311	0	0	286,763
	47,285	76,599	55,921	1,063	10,166	0	173	191,207
Total Expenses	\$ 3,930,890	\$ 3,047,707	\$ 3,901,084	\$ 289,073	\$ 1,087,601	\$ 11,023,979	\$ 1,789,787	\$ 25,070,121

See notes to combined financial statements.

**UPPER NEW YORK ANNUAL CONFERENCE
OF THE UNITED METHODIST CHURCH**

COMBINED STATEMENT OF CASH FLOWS

Year Ended December 31, 2018

CASH FLOWS FROM OPERATING ACTIVITIES	
Change in Net Assets Before Healthcare Liability	\$ (6,552,866)
Adjustments to Reconcile Change in Net Assets to Net Cash Used In Operating Activities:	
Depreciation Expense	440,926
Gain On Disposal of Real Property	(760,171)
Net Realized and Unrealized Losses on Investments	2,379,050
Net Change in Operating Assets and Liabilities	
Church Loan Receivables -Net	35,748
Other Receivables	(391,113)
Prepaid Expenses and Other Assets	(16,864)
Accounts Payable and Accrued Expenses	619,660
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Net Cash Used In Operating Activities	(4,245,630)
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CASH FLOWS FROM INVESTING ACTIVITIES	
(Increase) Decrease in Investments - Net	3,778,287
(Increase) Decrease in Custodial Funds - Net	79,209
Purchase of Properties and Equipment - Net	(333,584)
Proceeds From Sale of Real Estate	974,970
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Net Cash Provided By Investing Activities	4,498,882
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Net Increase in Cash and Cash Equivalents	253,252
Cash and Cash Equivalents, Beginning of Year	3,667,789
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Cash and Cash Equivalents, End of Year	\$ 3,921,041
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See notes to combined financial statements.

**UPPER NEW YORK ANNUAL CONFERENCE
OF THE UNITED METHODIST CHURCH**

NOTES TO COMBINED FINANCIAL STATEMENTS

December 31, 2018

NOTE 1 – NATURE OF OPERATIONS

The Upper New York Annual Conference was created as of July 1, 2010 as the result of the merger of four preexisting conferences: Troy, Wyoming, North Central and Western Annual Conferences. The plan of Union was presented by the Joint New Area/Conference Team (“New ACT”) and developed through the efforts of New ACT, the Joint Distribution Committee, the Assets Allocation Task Force and numerous other teams and committees.

The purpose of the Upper New York Annual Conference of the United Methodist Church (“the Conference”) (“UNYAC”) is to make disciples of Jesus Christ for the transformation of the world by equipping its local churches for ministry and by providing a connection for ministry beyond the local church; all to the glory of God. The Conference fulfills that mission by facilitating and resourcing the local churches in the Conference to invite, i.e. opening our doors to welcome new faces and doing new things to share the Good News, to nurture and care for our people so they may care for others, to equip the clergy and laity to learn so they can be enabled to lead; and to deploy, taking the love of Christ into our communities and the world. The Conference also serves as the administrative agency for the United Methodist Churches in the Upstate New York region, facilitating the establishment of local churches which become part of the Conference, providing leadership to the local churches, and by enabling of ministry through the extended connection of The United Methodist Church.

NOTE 2 – SIGNIFICANT ACCOUNTING POLICIES

Principles of Combination - The combined financial statements of the UNYAC include the accounts of CCFA, the Board of Trustees, the Camping and Retreat Ministry and the Episcopal Office all of which are under common management.

**UPPER NEW YORK ANNUAL CONFERENCE
OF THE UNITED METHODIST CHURCH**

NOTES TO COMBINED FINANCIAL STATEMENTS

December 31, 2018

NOTE 2 – SIGNIFICANT ACCOUNTING POLICIES – Continued

Basis of Accounting - These combined financial statements have been prepared on the accrual basis of accounting which recognizes income when earned and expenses when incurred.

Basis of Presentation – The financial statement presentation follows the recommendations of generally accepted accounting principles. The Conference is required to report information regarding its financial position and activities according to two classes of net assets: net assets without donor restrictions and net assets with donor restrictions.

Net Assets Without Donor Restrictions – Net assets available for use in general operations and not subject to donor (or certain grantor) restrictions. The governing boards have designated, from net assets without donor restrictions, net assets for Connectional Ministries, Ministerial Support, Camp and Retreat Ministries, mission support, property and equipment reserve and other board-designated endowment funds.

Net Assets With Donor Restrictions – Net assets subject to donor (or certain grantor) imposed restrictions. Some donor-imposed restrictions are temporary in nature, such as those that will be met by the passage of time or other events specified by the donor. Other donor-imposed restrictions are perpetual in nature, where the donor stipulates that resources be maintained in perpetuity. Donor imposed restrictions are released when a restriction expires, that is, when the stipulated time has elapsed, when the stipulated purpose for which the resource was restricted has been fulfilled, or both.

Income Tax Status - The Conference is exempt from income tax under Section 501(c)(3) of the Internal Revenue Code and the Internal Revenue Service Group Exemption ruling for the United Methodist Church and, therefore, has made no provision for federal or state income or franchise taxes.

Fund Accounting - To ensure observance of limitations and restrictions placed on the use of resources available to the Conference, the accounts of the Conference are maintained in accordance with the principles of fund accounting. This is the procedure by which resources for various purposes are classified for accounting and reporting purposes into funds established according to their nature and purpose.

The combined financial statements present expenses in accordance with the overall service mission of the Conference displayed within their natural classifications.

**UPPER NEW YORK ANNUAL CONFERENCE
OF THE UNITED METHODIST CHURCH**

NOTES TO COMBINED FINANCIAL STATEMENTS

December 31, 2018

NOTE 2 – SIGNIFICANT ACCOUNTING POLICIES – Continued

Adoption of New Accounting Standards – The Conference adopted the provisions of the Financial Accounting Standards Board’s Accounting Standards Update (“ASU) 2016-14, *Presentation of Financial Statement of Not-for-Profit Entities*, during 2018. ASU 2016-14 addresses the complexity and understandability of net asset classifications, deficiencies in information about liquidity and availability of resources, and the lack of consistency in the type of information provided about expenses and investment return.

Cash and Cash Equivalents - The Conference considers all highly liquid debt instruments purchased with maturity of three months or less to be cash equivalents.

Use of Estimates - The accompanying combined financial statements have been prepared in conformity with generally accepted accounting principles which requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Functional Allocation of Expenses - The costs of providing the various programs and other activities are summarized on a functional basis in the statement of functional expenses. Accordingly, certain costs have been allocated among the programs and supporting services benefited. All expenses are allocated based on direct identification.

Concentration of Credit Risk for Cash Held at Brokerage Firms - The Conference maintains cash balances at various institutions. Accounts at financial institutions are insured by the Federal Deposit Insurance Corporation up to limits as set by law for cash and are insured by the Securities Investor Protection Corporation up to \$500,000 for securities. In addition, the broker-dealer provides private insurance for amounts in excess of SPIC limits up to the full “net equity value” of the various accounts.

Receivables - There are Accounts Receivable within the HR-BOPH Fund which represent amounts collected in 2019 for 2018. This balance represents outstanding billings to member churches for insurances and pension benefits. The balance of this receivables account was \$149,004 as of December 31, 2018.

There are also receivables as of December 31, 2018 in the Trustees Fund which represent balances from member churches for various types of insurances that were unpaid. This balance, net of uncollectible reserves, amounted to \$4,936 as of December 31, 2018. Also, within the Trustees Fund, there were other additional receivables which were for Workers Compensation rebates received in subsequent year. The balance in this account, as of December 31, 2018, was \$4,517.

**UPPER NEW YORK ANNUAL CONFERENCE
OF THE UNITED METHODIST CHURCH**

NOTES TO COMBINED FINANCIAL STATEMENTS

December 31, 2018

NOTE 2 – SIGNIFICANT ACCOUNTING POLICIES – Continued

Investments Valuation - Investments in marketable securities with readily determinable fair values and all investments in debt securities are reported at their fair values in the statement of assets, liabilities and net assets.

Investment Income Recognition - Purchases and sales of securities are recorded on a trade-date basis. Interest Income is recorded on the accrual basis and dividends are recorded on the ex-dividend date. Realized and unrealized gains and losses are included in the determination of change in net assets.

Fixed Assets - The Conference own certain fixed assets which are not included in the statement of financial position due to inadequate cost records of the prior conferences. It is the current practice of the Conference to capitalize major renewals and betterments and to expense maintenance and repairs. Fixed assets capitalized by the Conference are recorded at their cost. Fixed asset (real estate, office equipment, etc.) acquisitions were recorded differently within the four conferences that were united. Some conferences treated the items as non-capitalized disbursements. The detail as it appears in Note 6, are the assets that have been capitalized before July 1, 2010, with additions and disposals since unifying.

Beginning January 1, 2018, the Conference adopted a policy to depreciate its fixed assets using the straight-line method over the estimated useful lives, for each category, as established by the Conferences management. Between 2010 and 2017, the conference elected not to record depreciation, which is a departure from generally accepted accounting principles. At January 1, 2018, the Conference recorded a \$2,235,100 prior period adjustment to the beginning of the year net asset balance, which had the effect of restating accumulated depreciation that would have been recorded if it had elected to depreciate its assets in accordance with generally accepted accounting principles from 2010-2017.

Depreciation expense recorded for the year ended December 31, 2018 was \$440,926.

**UPPER NEW YORK ANNUAL CONFERENCE
OF THE UNITED METHODIST CHURCH**

NOTES TO COMBINED FINANCIAL STATEMENTS

December 31, 2018

NOTE 2 – SIGNIFICANT ACCOUNTING POLICIES – Continued

Pass-through Liabilities - Pass-through liabilities represent amounts received that have not been passed on to certain charities specified by the donors. The Conference generally remits such funds on a monthly basis. The Conference does not have variance power over how these funds are disbursed and serves only an administrative function in collecting and disbursing the funds. Cash receipts and disbursements related to pass-through liabilities are not included in the Conference's revenues and expenses.

In-Kind Support - A number of clergy and laity of the UNYAC have contributed significant amounts of their time to the affairs of the UNYAC. However, these services have not been reflected in the combined financial statements as they do not meet the U.S. GAAP criteria for recognition.

Subsequent Events - The Conference has evaluated events and transactions that occurred between December 31, 2018 and August 5, 2021, which is the date the financial statements were available to be issued, for possible disclosure and recognition in the financial statements.

Transfers - "Transfers," as reported in Statements and Schedules, are transfers between funds on the books of the Conference and include reimbursements for services and/or supplies.

**UPPER NEW YORK ANNUAL CONFERENCE
OF THE UNITED METHODIST CHURCH**

NOTES TO COMBINED FINANCIAL STATEMENTS

December 31, 2018

NOTE 3 – LIQUIDITY AND AVAILABILITY

The Conference monitors its liquidity so that it is able to meet its operating needs while maximizing the investment of its excess operating cash. The Conference has the following financial assets less those unavailable for general expenditures within one year:

Financial Assets	
Cash	\$ 3,921,041
Accounts Receivable	920,763
Investments	39,990,684
	<u>44,832,488</u>
Less those unavailable for general expenditure within one year:	
Restricted - Perpetual in Nature	3,159,646
Investments designated for Pension and other Benefits	29,547,207
	<u>32,706,853</u>
Financial Assets available within one year of the statement date for general expenditure	<u><u>\$ 12,125,635</u></u>

The Conference's investments consist of both assets without donor restrictions and also assets with donor restrictions. Income from donor restricted investment is restricted for its specific purposes.

Conference investments that have purpose restrictions are all immediately available for expenditure, if elected by the conference. All donors of these funds have indicated a specific purpose for which these investments can be utilized, but with no time restrictions. At this time, it is expected that only \$500,000 of these funds will be used in the coming year.

In addition to financial assets available to meet general expenditures over the year, the Conference anticipates covering its general expenditures by collecting revenues from ministry shares, billings for pension and health care benefits, contributions, grant revenues, property sales and investment returns, as needed.

**UPPER NEW YORK ANNUAL CONFERENCE
OF THE UNITED METHODIST CHURCH**

NOTES TO COMBINED FINANCIAL STATEMENTS

December 31, 2018

NOTE 4 - INTERCONFERENCE DUE TO (FROM) OTHER FUNDS

According to the principles adopted in Fund Accounting, resources for various purposes are classified for accounting and reporting purposes into funds established according to their nature and purpose. During the course of a year, funds are sometimes paid from bank or investment accounts from one fund on behalf of another fund as well as revenues that are deposited into some bank or investment accounts of a fund that are truly the resources of another. At the time these funds are paid or deposited, inter-fund accounting is employed, whereby a liability is recorded as "Due to" another fund and also as an asset of "Due from" the respective fund. The summary all of these inter-fund transactions are reflected within this account and are netted against each other. The net total of these fund balances is zero.

NOTE 5 – FAIR VALUE

FASB ASC 820 defines fair value, establishes a framework for measuring fair value, and establishes a fair value hierarchy which prioritizes the inputs to valuation techniques. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. A fair value measurement assumes that the transaction to sell the asset or transfer the liability occurs in the principal market for the asset or liability or, in the absence of a principal market, the most advantageous market.

Valuation techniques that are consistent with the market, income or cost approach, as specified by FASB ASC 820, are used to measure fair value.

The fair value hierarchy prioritizes the inputs to valuation techniques used to measure fair value into three broad levels:

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities the Conference have the ability to access.
- Level 2 are inputs (other than quoted prices included within level 1) that are observable for the asset or liability, either directly or indirectly.
- Level 3 are unobservable inputs for the asset or liability and rely on management's own assumptions about the assumptions that market participants would use in pricing the asset or liability. (The unobservable inputs should be developed based on the best information available in the circumstances and may include the Conference's own data.)

Investments are classified in their entirety based on the lowest level of input that is significant to the fair value measurement. Valuation techniques maximize the use of relevant observable inputs and minimize the use of unobservable inputs. There were no transfers between the levels during the year.

**UPPER NEW YORK ANNUAL CONFERENCE
OF THE UNITED METHODIST CHURCH**

NOTES TO COMBINED FINANCIAL STATEMENTS

December 31, 2018

NOTE 5 – FAIR VALUE - CONTINUED

The following table sets forth by level, within the fair value hierarchy, the Conference's investments that are measured at fair value on a recurring basis as of December 31, 2018:

	Level 1	Level 2	Level 3	Total
Money Market Funds	\$ 547,373	\$ 0	\$ 0	\$ 547,373
Equities and ETF's	5,790,744	0	0	5,790,744
Equities – Mutual Funds	1,220,804	0	0	1,220,804
Fixed Income	739,717	0	0	739,717
Fixed Income – Mutual Funds	148,696	0	0	148,696
Pooled Investment Funds	<u>0</u>	<u>31,543,350</u>	<u>0</u>	<u>31,543,350</u>
Total Assets at Fair Value	<u>\$ 8,447,334</u>	<u>\$ 31,543,350</u>	<u>\$ 0</u>	<u>\$ 39,990,684</u>

The conference's investment funds consist of many funds that were established for a variety of purposes. These include conference ministry, Board of Ordained Ministry funds, Camp & Retreat Ministry Funds, Board of Pension & Health funds, and Trustee funds. They are inclusive of activity that are held with seven different investment managers, including Trustee Custodian Funds as discussed in Note 8. The assets that are associated with these invested funds include both funds with and without donor restrictions and also designated funds by the Annual Conference. Investment return including interest, dividends, net realized and unrealized gains and (losses) for the year ended December 31, 2018 was approximately (\$2,340,000).

NOTE 6 - PROPERTY AND EQUIPMENT

The following are carried as Fixed Assets in the statement of financial position of the Conference at December 31, 2018, using the various recording methods for the four conferences as united in 2010 and then using the straight-line method thereafter:

Camps	\$ 9,540,784
Parsonages and Episcopal Residence	2,678,933
Office Equipment	359,247
Conference Center	<u>3,768,890</u>
	16,347,854
Less: Accumulated Depreciation	<u>(4,992,598)</u>
Total	<u>\$ 11,355,256</u>

**UPPER NEW YORK ANNUAL CONFERENCE
OF THE UNITED METHODIST CHURCH**

NOTES TO COMBINED FINANCIAL STATEMENTS

December 31, 2018

NOTE 7 – CHURCH AND SEMINARY LOANS RECEIVABLE

The Conference maintains a Church Loan Fund for the purpose of extending grants and low interest loans. The loans have various periodic payment terms and are charged interest ranging from 3 to 5%. At December 31, 2018 the total church loan balances outstanding were \$156,829. The Conference has recorded a reserve of \$107,500 for potential uncollectible church loans for the year ended December 31, 2018.

Bulson student loans are repayable in equal monthly installments, beginning nine months after a student leaves school, for a period of up to five years. Interest only is charged at the rate of 3% during the grace period, with an interest rate of 6% during the repayment period. At December 31, 2018 the total Bulson student loan balances outstanding were \$75,454.

NOTE 8 - TRUSTEES' FUNDS - CUSTODIAN ACCOUNTS

The balances in the custodian accounts represent principal amounts of the Stecher Fund and the Elmer White Trust that were received by the trustees of the Conference with the stipulation by the donors that said principal amounts are to be held in perpetuity and invested to produce income for designated beneficiaries.

Balance at Beginning of Year	\$ 1,293,491
Investment Income (Loss) - Net of Fees	(69,135)
Paid to Designated Beneficiaries	<u>(10,074)</u>
Balance at December 31	<u>\$ 1,214,282</u>

NOTE 9 – FUNDS WITH DONOR RESTRICTIONS

The Conference classifies as net assets with donor restrictions the original value of contributions to the endowment, the original value of subsequent contributions 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 funds that is not classified in net assets with donor restrictions is classified as net assets without donor restrictions in accordance with donor and Annual Conference stipulations.

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NOTES TO COMBINED FINANCIAL STATEMENTS

December 31, 2018

NOTE 9 – FUNDS WITH DONOR RESTRICTIONS - Continued

The activity for Funds with Donor Restrictions for the year ended December 31, 2018 are as follows:

	With Donor Restrictions Purpose	With Donor Restrictions Perpetual	Total
Balance - January 1, 2018	\$ 6,436,545	\$ 3,445,387	\$ 9,881,932
Revenues	298,498	0	298,498
Income (Losses) from Investments	(288,896)	(173,061)	(461,957)
Interfund Transfers	74,052	(74,052)	0
Assets Released from Restrictions	(522,751)	(38,628)	(561,379)
Balance - December 31, 2018	<u>\$ 5,997,448</u>	<u>\$ 3,159,646</u>	<u>\$ 9,157,094</u>

Net Investment interest, dividends, realized and unrealized gains and losses from the investment funds are allocated to the conference designated and donor designated net asset funds via a pro rata method. The value of each net asset at the beginning of the fiscal year is allocated a portion of the net gains (losses) of each investment account based on the percentage of the overall net assets. Exceptions to this rule are for custodial funds (see Note 8) and Board of Pension and Health Funds. These funds are separated into separate investment accounts and the net gains (losses) from each of these investments are allocated directly to the respective net endowed asset account to which it is associated.

NOTE 10 - NET ASSETS

Net assets are designated by the Conference for the purposes as outlined, by fund, in the Statements of Financial Position. The detailed designations of Without Donor Restrictions, With Donor Restriction Purpose and With Donor Restrictions Perpetual are outlined in the Summary of Accounting Policies on page 9. The following is a summary of the fund designations being used by the Conference:

General Funds – Includes Conference, Camps & Retreat, Ministerial, BOOM, Episcopal, General Business Administration and all Conference teams, resources activities.

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NOTES TO COMBINED FINANCIAL STATEMENTS

December 31, 2018

NOTE 10 - NET ASSETS - CONTINUED

Investment Funds – Includes the interest, dividends, gains, and losses activity of all conference investments held in institutional investment funds, with the exception of the assets held by the General Board of Pensions & Health.

Trustee Funds – the activities of all revenue and expenses related to Trustee-held property as outlined in the Book of Discipline. This property includes, among other things, closed church properties, district parsonages and conference center property.

Conference Board of Pension & Health (CBOPH) Funds – includes activities as under the charge of the Conference Board of Pension and Health. These include all revenues and expenses related to Conference clergy and employee health care, pension, and other employee benefits.

3rd Party Funds – activities related to funds held by third parties which include Course of Study, RISE, Haiti and Peace with Justice and Conference Youth Ministries.

**UPPER NEW YORK ANNUAL CONFERENCE
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NOTES TO COMBINED FINANCIAL STATEMENTS

December 31, 2018

NOTE 11 - RETIREMENT/WELFARE PLANS

The UNYAC participates in a multiemployer defined benefit pension plan (the "Plan" administered by the General Board that covers substantially all UMC clergy. The UNYAC participates in various sub-plans under the multiemployer plan which are 1) Supplement One to the Clergy Retirement Security Program ("Pre-1982 Plan"), 2) the defined benefit portion of Supplement Three to the Clergy Retirement Security Program otherwise known as the Ministerial Pension Plan ("MPP Annuities"), and 3) Core Defined Benefit Part of the Clergy Retirement Security Program ("CRSP-DB"). This multiemployer plan is a non-electing church plan under the Internal Revenue Code Sections 414(e) and 410(d) and as such is exempt from the minimum funding requirements of ERISA, the Pension Protection Act of 2006, and Internal Revenue Code Sections 412 and 430 through 436. Accordingly, no funding improvement plan or zoning funding requirements apply.

The Plan covers three service periods and is therefore managed as three sub-plans since the benefit structure differs for each of the service periods, although the funding for any of the sub-plans can, under certain circumstances, cover any of the sub-plans.

The risks of participating in these multi-employer sub-plans are different from single-employer plans in the following respects:

- a) Assets contributed to the multiemployer plan by one conference may be used to provide benefits to clergy of other U.S. United Methodist Annual Conferences.
- b) If an annual conference stops contributing to the plan, the unfunded obligations of the plan may be borne by the remaining participating annual conferences.

As of January 1, 2019, the date for which the most current information is available, the Pre-1982 Plan for all Conferences had assets of \$1,941,853,462 and liabilities of \$2,237,738,209 for a net funded status of \$(295,884,747). As of January 1, 2019, the date for which the most current information is available, the CRSP-DB and MPP Plans for all Conferences had assets of \$6,046,909,366 and liabilities of \$5,631,656,667 for a net funded status of \$415,252,689.

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NOTES TO COMBINED FINANCIAL STATEMENTS

December 31, 2018

NOTE 11 – RETIREMENT/WELFARE PLANS - Continued

Pre-1982 Plan

The Pre-1982 Plan covers service prior to 1982. Past Service Defined benefit funding is an annual actuarially determined amount approved by the Annual Conference, as determined by the General Board of Pensions and Health Benefits. The GBOPHB uses the RP2000 Individual Annuity Mortality Table in the determination of these amounts. The UNYAC adopted the following benefit levels for 2018:

Past Service Rate	<u>\$ 645</u>
Contingent Annuitant Percentage	<u>\$ 75%</u>

As of January 1, 2019, the valuation date for 2021 contributions, the Pre-1982 Plan had a funded status of 99%. Expense for the year ended December 31, 2018 amounted to \$3,330,018.

Ministerial Pension Plan (MPP)

The Ministerial Pension Plan (MPP) provided benefits for United States of America clergy from January 1, 1982 through December 31, 2006. It is primarily a defined contribution retirement plan with the requirement that clergy must convert 65% of his or her total account balance to an annuity. This plan ended effective December 31, 2006. The Conference made no contributions to the plan in 2018 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)

The CRSP plan covers service on or after January 1, 2007. The plan has both defined benefit and defined contribution components. The Conference contributed an amount per month per Full Time Equivalent towards the defined benefit portion of the plan for clergy. Contributions for each participant are fully vested. As of January 1, 2018, the valuation date for 2020 contributions, the CRSP-Defined Benefit plan had a funded status of 107%. Expense for the year ended December 31, 2018 amounted to \$1,824,866.

In addition, there is a non-matching contribution to the CRSP-Defined Contribution portion of the plan. The Conference contributes 3% of the compensation for eligible clergy. Expense for the year ended December 31, 2018 for CRSP-DC for clergy amounted to \$498,794.

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NOTES TO COMBINED FINANCIAL STATEMENTS

December 31, 2018

NOTE 11 – RETIREMENT/WELFARE PLANS - Continued

United Methodist Personal Investment Plan (UMPIP)

Lay-staff retirement benefits are covered under UMPIP, a 403(b)-defined contribution plan. Participation in UMPIP requires each eligible employee to contribute 3% or more of wages to receive a 9% of salary contribution by the UNYAC. Expense for the year ended December 31, 2018 amounted to \$152,290.

Beginning in 2017, some clergy are covered under the UMPIP plan as well. Electing churches were given the option to cover clergy who are not full time, as some churches could not afford to fully participate in the CRSP plan that is offered to clergy. Clergy who are covered under this plan receive a 9% contribution (based on salary plus housing allowance). Expense for the year ended December 31, 2018 for this plan was \$124,609.

Clergy Protection Plan (CPP)

The Upper New York Annual Conference of the United Methodist church participates in a defined benefit multi-employer welfare plan administered by the General Board of Pensions of the United Methodist Church (Clergy Protection Plan) (CPP). The plan provides life insurance benefits to qualifying and retiring members in addition to providing long-term disability income benefits to qualified active clergy and guaranteed minimum benefits for widows and dependent children of deceased members. Expense for the year ended December 31, 2018 for clergy CPP programs amounted to \$494,397.

Post Retirement Health Plan

The Conference sponsors a postretirement health care plan for all Conference employees and participating clergy that meet eligibility requirements. The plan is contributory, with retiree contributions that are adjustable based on various factors, some of which are discretionary.

The summary of the plan provisions and contribution requirements for the plan include:

The Conference obligation is based on years of service: 3.33% of the maximum funded amount per full-time equivalent year of service up to maximum of 30 years (90%) with 5 year vesting. Surviving spouses receive the same percentage as the retiree and lay retirees receive benefits on the same basis as clergy. The period of coverage for both Retirees and spouses is lifetime.

**UPPER NEW YORK ANNUAL CONFERENCE
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NOTES TO COMBINED FINANCIAL STATEMENTS

December 31, 2018

NOTE 11 – RETIREMENT/WELFARE PLANS - Continued

On December 31, 2014, the UNYAC terminated the retiree group medical insurance.

Effective January 1, 2015, the UNYAC partnered with Towers Watson One Exchange to provide a choice of Medicare Supplement and Medicare Advantage health insurance plans for the UNYAC's current and future eligible retirees, who are already enrolled in Medicare. These plans are combined with an individual Health Reimbursement Account ("HRA") for each retiree and spouse, as applicable. The UNYAC will fund the HRA within the plan chosen by the retiree with a fixed amount with which the retiree may choose to pay health care premiums and other health-related expenses. The fixed maximum contribution per participant for 2018 was \$2,678, based on years of service.

Generally accepted accounting principles require that the accumulated postretirement benefit obligation be recorded in the combined financial statements at the present value of the anticipated actuarial cost of health benefits for retirees.

UNYAC received a valuation of its postretirement health benefit plan obligation at December 31, 2018 in February 2019. The accumulated postretirement benefit obligation (APBO) as calculated by Willis Towers Watson PLC at December 31, 2018 is \$21,833,147. The Conference elected to record the obligation at December 31, 2018.

Assumptions used:

Discount Rate	4.05%
Current Health Care Cost Trend Rate	7.00%
Ultimate Health Care Cost Trend Rate	5.00%
Year that the rate reaches the ultimate trend rate	2027
Census Date	1/1/2019

UNYAC did not obtain an updated valuation of its postretirement health benefits for the year ending December 31, 2017. By not obtaining an updated valuation for the 2017 year, a current year expense cannot be computed, thus resulting in the inability to record such amount in the combined financial statements for the year ending December 31, 2018. The effect on the 2018 statements has not been determined.

NOTE 12 – COMMITMENTS

The Trustees guarantee loans for a few member churches. At December 31, 2018 the guarantees are approximately \$863,400 and are secured by the Trustees' assets.

**UPPER NEW YORK ANNUAL CONFERENCE
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NOTES TO COMBINED FINANCIAL STATEMENTS

December 31, 2018

NOTE 13 – OPERATING LEASES

The Conference also leases multiple small offices for its district superintendents and New Faith Communities under short term operating leases. Rent expense for the year ended December 31, 2018 amounted to approximately \$92,700.

NOTE 14 – CONTINGENCIES

The Conference is involved in litigation arising in the normal course of business. Management estimates that the ultimate resolution of these matters will not be material to the Conference's financial position.

NOTE 15 – COVID-19

The outbreak of the 2019 coronavirus disease ("COVID-19"), which was declared a global pandemic by the World Health Organization on March 11, 2020, and the related responses by public health and governmental authorities to contain and combat its outbreak and spread, adversely affected workforces, economies, and financial markets globally.

The COVID-19 pandemic remains a rapidly evolving situation. The extent of the impact of COVID-19 on our business and financial results will depend on future developments, including the duration and spread of the outbreak within the markets in which we operate and the related impact on consumer confidence and spending, all of which are highly uncertain. We continue to monitor evolving economic and general business conditions and the actual and potential impacts on our financial position, results of operations, and cash flows.

NOTE 16 – PAYCHECK PROTECTION PROGRAM

During April 2020, Conference received loan proceeds in the amount of \$1,051,932 under the Paycheck Protection Program ("PPP"). Established as part of the Coronavirus Aid, Relief and Economic Security Act ("CARES Act"), the PPP provides for loans to qualifying businesses in amounts up to 2.5 times the business's average monthly payroll expenses. PPP loans and accrued interest are forgivable after a "covered period" (8 or 24 weeks) as long as the borrower maintains its payroll levels and uses the loan proceeds for eligible purposes, including payroll, benefits, rent, and utilities. The forgiveness amount will be reduced if the borrower terminates employees or reduces salaries during the covered period. Any unforgiven portion of a PPP loan is payable over two years at an interest rate of 1%, with a deferral of payments for 10 months after the end of the covered period. The Conference applied and was granted forgiveness of the loan during January 2021 in full, based on compliance with the provisions of the program.

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COMBINING STATEMENT OF ACTIVITIES

Year Ended December 31, 2018

	Ministries		Trustees		Total
	Without Donor Restrictions	With Donor Restrictions	Without Donor Restrictions	With Donor Restrictions	
REVENUES AND SUPPORT					
Ministry Shares	\$ 8,345,120	\$ 0	\$ 8,345,120	\$ 0	\$ 0
Donations and Grants	215,786	298,369	514,155	129	20,129
Direct Billed Benefits to Member Churches	0	0	0	0	0
Events, Registrations, and Other Fees	288,259	0	288,259	0	0
Camping Revenues	2,092,081	0	2,092,081	0	0
Sale of Churches and Real Estate	760,171	0	760,171	0	0
Rents, Reimbursements and Other Miscellaneous Revenue	185,970	0	185,970	0	990,036
Investment Income	(70,816)	(228,479)	(299,295)	(162,827)	358,972
Net Assets Released from Restrictions	548,318	(548,318)	0	(13,061)	(324,227)
Total Revenues and Support	<u>12,364,889</u>	<u>(478,428)</u>	<u>11,886,461</u>	<u>(175,759)</u>	<u>1,044,910</u>
EXPENSES					
Program Services					
Connectional Ministries	3,930,890	0	3,930,890	0	0
Ministrial Support	3,047,707	0	3,047,707	0	0
Camps and Retreat Ministries	3,901,084	0	3,901,084	0	0
Other Missional	0	0	0	0	0
Support Services	0	0	0	0	0
Trustees	0	0	0	1,087,601	1,087,601
Conference Board of Pension and Health	0	0	0	0	0
General and Administrative	1,789,787	0	1,789,787	0	0
Total Expenses	<u>12,669,468</u>	<u>0</u>	<u>12,669,468</u>	<u>1,087,601</u>	<u>1,087,601</u>
Change in Net Assets Before Post Retirement Healthcare Liability	(304,579)	(478,428)	(783,007)	(175,759)	(42,691)
Post Retirement Healthcare Benefit Plan Liability	0	0	0	0	0
Change In Net Assets	(304,579)	(478,428)	(783,007)	(175,759)	(42,691)
Net Assets, Beginning of Year	3,535,300	12,828,652	16,363,952	9,344,195	11,422,821
Prior Period Adjustment - Accumulated Depreciation	(1,831,378)	0	(1,831,378)	0	(403,722)
Interfund Reclassifications - PPE	7,525,650	(7,525,650)	0	(6,386,847)	0
Net Assets, End of Year	<u>\$ 8,924,993</u>	<u>\$ 4,824,574</u>	<u>\$ 13,749,567</u>	<u>\$ 8,194,819</u>	<u>\$ 10,976,408</u>

See independent auditors' report.

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COMBINING STATEMENT OF ACTIVITIES - (CONTINUED)

Year Ended December 31, 2018

	----- Board of Pension and Health -----		--- 3rd Party ---		-----Grand Totals-----	
	Without Donor Restrictions	With Donor Restrictions	Without Donor Restrictions	With Donor Restrictions	Without Donor Restrictions	With Donor Restrictions
	Total	Total	Total	Total	Total	Total
REVENUES AND SUPPORT						
Ministry Shares	\$ 0	\$ 0	\$ 0	\$ 0	\$ 8,345,120	\$ 8,345,120
Donations and Grants	0	0	80,396	0	316,182	614,680
Direct Billed Benefits to Member Churches	7,021,987	0	0	0	7,021,987	7,021,987
Events, Registrations, and Other Fees	0	0	160,982	0	449,241	449,241
Camping Revenues	0	0	1,007	0	2,093,088	2,093,088
Sale of Churches and Real Estate	0	0	0	0	1,750,207	1,750,207
Rents, Reimbursements and Other Miscellaneous Revenue	540	0	35,967	0	581,449	581,449
Investment Income	(1,644,344)	(70,651)	0	0	(1,876,560)	(2,338,517)
Net Assets Released from Restrictions	0	0	0	0	561,379	0
Total Revenues and Support	5,378,183	(70,651)	278,352	0	19,242,093	18,517,255
EXPENSES						
Program Services	0	0	0	0	3,930,890	3,930,890
Connecional Ministries	0	0	0	0	3,047,707	3,047,707
Ministrial Support	0	0	0	0	3,901,084	3,901,084
Camps and Retreat Ministries	0	0	289,073	0	289,073	289,073
Other Missional Support Services	0	0	0	0	0	0
Trustees	0	0	0	0	1,087,601	1,087,601
Conference Board of Pension and Health	11,023,979	0	0	0	11,023,979	11,023,979
General and Administrative	0	0	0	0	1,789,787	1,789,787
Total Expenses	11,023,979	0	289,073	0	25,070,121	25,070,121
Change in Net Assets Before Post Retirement Healthcare Liability	(5,645,796)	(70,651)	(10,721)	(724,838)	(5,828,028)	(6,552,866)
Post Retirement Healthcare Benefit Plan Liability	(21,833,147)	0	0	0	(21,833,147)	(21,833,147)
Change In Net Assets	(27,478,943)	(70,651)	(10,721)	(724,838)	(27,661,175)	(28,386,013)
Net Assets, Beginning of Year	33,949,572	1,621,582	185,771	23,794,429	39,749,269	63,543,698
Prior Period Adjustment - Accumulated Depreciation	0	0	0	0	(2,235,100)	(2,235,100)
Interfund Reclassifications - PPE	0	0	0	0	13,912,497	0
Net Assets, End of Year	6,470,629	1,550,931	175,050	9,157,094	23,765,491	32,922,585

See independent auditors' report.