

UPPER NEW YORK ANNUAL
CONFERENCE OF THE UNITED
METHODIST CHURCH

COMBINED FINANCIAL STATEMENTS

December 31, 2017 and 2016

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**BOWERS & COMPANY
CPAs PLLC**

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, 2017 and 2016, and the related combined statements of activities and cash flows for the years 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 audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the 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 9 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, thus resulting in the inability to record such amount in the combined financial statements for the year ending December 31, 2017. The effect on the 2017 combined statements of activities has not been determined. The last valuation obtained was as of December 31, 2016. The Conference elected not to record a liability at December 31, 2016 for the unfunded status of its postretirement health benefit plan of \$27,299,984. In our opinion, a liability for postretirement health benefits and related disclosures are required to conform with accounting principles generally accepted in the United States of America.

As more fully discussed in Note 2 to the combined financial statements, the Conference has elected effective July 1, 2010, to not depreciate its property and equipment. In our opinion, recording depreciation of property and equipment is required to conform with accounting principles generally accepted in the United States of America. The effects on the combined statements of activities of not recording depreciation on a straight-line basis over the estimated useful life of property and equipment is approximately \$381,000 and \$365,000 for the years ended December 31, 2017 and 2016, respectively.

Qualified Opinion

In our opinion, except for the effects of the matters 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 2017 and 2016 and the changes in its net assets and cash flows for the years 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 page 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
February 10, 2020

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

AUDITED COMBINED FINANCIAL STATEMENTS

COMBINED STATEMENT OF FINANCIAL POSITION - 2017

December 31, 2017

ASSETS

	General Funds	Investment Funds	Trustee Funds	CBOPH Funds	3rd Party Funds	2017 Combined
ASSETS						
Cash and Cash Equivalents	\$ 3,667,789	\$ 0	\$ 0	\$ 0	\$ 0	\$ 3,667,789
Investments	916,241	18,194,262	0	25,823,236	0	44,933,739
Investments - Custodial Accounts	0	0	1,293,491	0	0	1,293,491
Notes Receivable	0	0	160,531	0	0	160,531
Receivables - Benefits, Insurance and Other	29,012	0	154,101	221,754	0	404,867
Prepaid Expenses and Other Assets	7,138	0	21,190	0	0	28,328
Inter-Conference Funds	4,249,684	(18,194,262)	4,232,645	9,526,162	185,771	0
Property and Equipment - Net	7,525,650	0	6,386,847	0	0	13,912,497
TOTAL ASSETS	\$ 16,395,514	\$ -	\$ 12,248,805	\$ 35,571,152	\$ 185,771	\$ 64,401,242

LIABILITIES AND NET ASSETS

LIABILITIES						
Accounts Payable and Accrued Expenses	\$ 856,134	\$ 0	\$ 0	\$ 0	\$ 0	\$ 856,134
Pass-Through Liabilities	1,410	0	0	0	0	1,410
TOTAL LIABILITIES	857,544	0	0	0	0	857,544
NET ASSETS						
Unrestricted	1,190,124	0	(284,933)	5,230,188	0	6,135,379
Unrestricted - Designated	1,527,575	0	3,189,474	28,711,070	185,771	33,613,890
Temporarily Restricted	12,348,736	0	7,887,293	113,013	0	20,349,042
Permanently Restricted	471,535	0	1,456,971	1,516,881	0	3,445,387
TOTAL NET ASSETS	15,537,970	0	12,248,805	35,571,152	185,771	63,543,698
TOTAL LIABILITIES AND NET ASSETS	\$ 16,395,514	\$ -	\$ 12,248,805	\$ 35,571,152	\$ 185,771	\$ 64,401,242

See notes to combined financial statements.

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

COMBINED STATEMENT OF FINANCIAL POSITION - 2016

December 31, 2016

ASSETS

	General Funds	Investment Funds	Trustee Funds	CBOPH Funds	3rd Party Funds	2016 Combined
ASSETS						
Cash and Cash Equivalents	\$ 2,179,193	\$ 0	\$ 0	\$ 0	\$ 0	\$ 2,179,193
Investments	925,665	18,336,573	0	22,781,656	0	42,043,894
Investments - Custodial Accounts	0	0	1,244,230	0	0	1,244,230
Notes Receivable - Churches and Seminary	0	0	175,580	0	0	175,580
Receivables - Benefits, Insurance and Other	0	0	12,761	138,399	0	151,160
Prepaid Expenses and Other Assets	112,193	0	51,786	0	500	164,479
Inter-Conference Funds	1,964,882	(12,416,954)	2,349,413	7,966,864	135,795	0
Property and Equipment - Net	7,597,020	0	5,736,117	0	0	13,333,137
TOTAL ASSETS	\$ 12,778,953	\$ 5,919,619	\$ 9,569,887	\$ 30,886,919	\$ 136,295	\$ 59,291,673

LIABILITIES AND NET ASSETS

LIABILITIES						
Accounts Payable and Accrued Expenses	\$ 240,994	\$ 0	\$ 0	\$ 0	\$ 0	\$ 240,994
Pass-Through Liabilities	7,591	0	0	0	0	7,591
TOTAL LIABILITIES	248,585	0	0	0	0	248,585
NET ASSETS						
Unrestricted	(262,034)	5,919,619	(595,731)	1,543,212	0	6,605,066
Unrestricted - Designated	1,943,918	0	5,069,719	28,275,825	136,295	35,425,757
Temporarily Restricted	10,611,583	0	4,972,540	63,358	0	15,647,481
Permanently Restricted	236,901	0	123,359	1,004,524	0	1,364,784
TOTAL NET ASSETS	12,530,368	5,919,619	9,569,887	30,886,919	136,295	59,043,088
TOTAL LIABILITIES AND NET ASSETS	\$ 12,778,953	\$ 5,919,619	\$ 9,569,887	\$ 30,886,919	\$ 136,295	\$ 59,291,673

See notes to combined financial statements.

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

COMBINED STATEMENT OF ACTIVITIES - 2017

Year Ended December 31, 2017

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total 2017
REVENUES AND SUPPORT				
Ministry Shares	\$ 8,635,800	\$ 0	\$ 0	\$ 8,635,800
Donations, Grants & Reimbursements	777,956	163,365	0	941,321
Direct Billed Benefits & Master Insurance Plan	6,988,047	0	0	6,988,047
Event Registration & Income	533,417	0	0	533,417
Camp & Retreat Revenue & Sales	2,448,752	0	0	2,448,752
Property Sales & Insurance Proceeds	532,249	0	0	532,249
Investment Income	5,741,427	154,523	34,630	5,930,580
Total Revenues and Support	<u>25,657,648</u>	<u>317,888</u>	<u>34,630</u>	<u>26,010,166</u>
EXPENSES				
General Church Ministry Support	2,171,507	0	0	2,171,507
Compensation - Salaries, Wages & Housing Allowances	4,234,868	0	0	4,234,868
Fringe Benefits - Health Insurance, Pension & Workers' Comp	9,781,202	0	0	9,781,202
Employment Costs - Training, Recruitment & Moving Expenses	407,484	3,750	0	411,234
Program, Grants & Discretionary Expenditures	1,048,469	10,618	17,000	1,076,087
Travel, Mileage & Hospitality	583,888	1,232	0	585,120
Professional Services	381,190	11,119	0	392,309
Supplies - Food, Program & Maintenance Costs	642,548	1,278	0	643,826
Fees & Services	197,185	42,389	0	239,574
Facilities & Equipment- Maintenance Costs	643,675	110,579	0	754,254
Insurance Plan Cost	217,456	0	0	217,456
Rent & Property Tax Expenses	150,418	0	0	150,418
Utilities & Communications	432,160	0	0	432,160
Other	261,679	156,372	1,490	419,541
Total Expenses	<u>21,153,729</u>	<u>337,337</u>	<u>18,490</u>	<u>21,509,556</u>
Change in Net Assets - Increase (Decrease)	4,503,919	(19,449)	16,140	4,500,610
Net Assets, Beginning of Year	42,030,823	15,647,481	1,364,784	59,043,088
Interfund Reclassifications	<u>(6,792,671)</u>	<u>4,721,010</u>	<u>2,071,661</u>	<u>0</u>
Net Assets, End of Year	<u>\$ 39,742,071</u>	<u>\$ 20,349,042</u>	<u>\$ 3,452,585</u>	<u>\$ 63,543,698</u>

See notes to combined financial statements.

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

COMBINED STATEMENT OF ACTIVITIES - 2016

Year Ended December 31, 2016

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total 2016
REVENUES AND SUPPORT				
Ministry Shares	\$ 8,597,328	\$ 0	\$ 0	\$ 8,597,328
Donations, Grants & Reimbursements	551,388	1,097,945	0	1,649,333
Direct Billed Benefits & Master Insurance Plan	7,172,950	0	0	7,172,950
Event Registration & Income	512,039	0	0	512,039
Camp & Retreat Revenue & Sales	2,184,647	16,951	0	2,201,598
Property Sales & Insurance Proceeds	652,998	0	0	652,998
Investment Income	2,998,137	84,121	0	3,082,258
Interfund Transfers	(371,219)	364,021	7,198	0
Total Revenues and Support	<u>22,298,268</u>	<u>1,563,038</u>	<u>7,198</u>	<u>23,868,504</u>
EXPENSES				
General Church Ministry Support	2,133,967	0	0	2,133,967
Compensation - Salaries, Wages & Housing Allowances	4,186,602	0	0	4,186,602
Fringe Benefits - Health Insurance, Pension & Workers' Comp	9,479,523	0	0	9,479,523
Employment Costs - Training, Recruitment & Moving Expenses	372,705	7,785	0	380,490
Program, Grants & Discretionary Expenditures	1,291,610	11,584	0	1,303,194
Travel, Mileage & Hospitality	566,627	92	0	566,719
Professional Services	446,319	7,312	0	453,631
Supplies - Food, Program & Maintenance Costs	629,242	427	0	629,669
Fees & Services	256,983	2,116	0	259,099
Facilities & Equipment- Maintenance Costs	331,919	57,996	0	389,915
Insurance Plan Cost	240,844	0	0	240,844
Rent & Property Tax Expenses	261,271	0	0	261,271
Utilities & Communications	362,937	0	0	362,937
Other	340,516	141,228	0	481,744
Total Expenses	<u>20,901,065</u>	<u>228,540</u>	<u>0</u>	<u>21,129,605</u>
Change in Net Assets - Increase (Decrease)	1,397,203	1,334,498	7,198	2,738,899
Net Assets, Beginning of Year	<u>40,633,620</u>	<u>14,312,983</u>	<u>1,357,586</u>	<u>56,304,189</u>
Net Assets, End of Year	<u>\$ 42,030,823</u>	<u>\$ 15,647,481</u>	<u>\$ 1,364,784</u>	<u>\$ 59,043,088</u>

See notes to combined financial statements.

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

COMBINED STATEMENT OF CASH FLOWS - 2017

Year Ended December 31, 2017

	2017
CASH FLOWS FROM OPERATING ACTIVITIES	
Change in Net Assets	\$ 4,500,610
Adjustments to Reconcile Change in Net Assets to Net Cash Provided By Operating Activities:	
Net Change in Operating Assets and Liabilities	
Church Loan Receivables -Net	15,049
Other Receivables	(253,707)
Prepaid Expenses and Other Assets	136,151
Accounts Payable and Accrued Expenses	608,959
	<hr/>
Net Cash Provided By Operating Activities	5,007,062
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CASH FLOWS FROM INVESTING ACTIVITIES	
(Increase) Decrease in Investments - Net	(2,889,845)
(Increase) Decrease in Custodial Funds - Net	(49,261)
Purchase of Properties and Equipment - Net	(930,233)
Proceeds From Sale of Real Estate	350,873
	<hr/>
Net Cash Used In Investing Activities	(3,518,466)
	<hr/>
Net Increase in Cash and Cash Equivalents	1,488,596
Cash and Cash Equivalents, Beginning of Year	2,179,193
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Cash and Cash Equivalents, End of Year	\$ 3,667,789
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See notes to combined financial statements.

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

COMBINED STATEMENT OF CASH FLOWS - 2016

Year Ended December 31, 2016

	2016
CASH FLOWS FROM OPERATING ACTIVITIES	
Change in Net Assets	\$ 2,738,899
Adjustments to Reconcile Change in Net Assets to Net Cash Provided by Operating Activities:	
Net Change in Operating Assets and Liabilities	
Church Loan Receivables	1,842
Other Receivables	351,584
Prepaid Expenses and Other Assets	2,992
Accounts Payable and Accrued Expenses	<u>(345,855)</u>
Net Cash Provided By Operating Activities	<u>2,749,462</u>
CASH FLOWS FROM INVESTING ACTIVITIES	
(Increase) Decrease in Investments - Net	(2,400,556)
(Increase) Decrease in Custodial Funds - Net	(51,236)
Purchase of Properties and Equipment	<u>(2,774,623)</u>
Net Cash Used In Investing Activities	<u>(5,226,415)</u>
Net Decrease in Cash and Cash Equivalents	(2,476,953)
Cash and Cash Equivalents, Beginning of Year	<u>4,656,146</u>
Cash and Cash Equivalents, End of Year	<u><u>\$ 2,179,193</u></u>

See notes to combined financial statements.

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

NOTES TO COMBINED FINANCIAL STATEMENTS

December 31, 2017 and 2016

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, 2017 and 2016

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.

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.

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.

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.

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

NOTES TO COMBINED FINANCIAL STATEMENTS

December 31, 2017 and 2016

NOTE 2 – SIGNIFICANT ACCOUNTING POLICIES – Continued

Receivables

Receivables in the HR-Benefits fund represent amounts collected in 2018 for 2017 and 2017 for 2016 for balances outstanding from member churches for direct billings for insurance and pension benefits. In addition, other receivables include an amount for workers compensation rebate received in subsequent years. Amounts included in other receivables at December 31, 2017 and 2016 were \$130,944 and \$0, respectively within the Trustees fund.

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 5, are the assets that have been capitalized before July 1, 2010, with additions and disposals since unifying.

Beginning July 1, 2010, the Conference has elected not to depreciate its fixed assets as required by generally accepted accounting principles. The effects of said departure is such that approximately \$381,000 and \$365,000 of depreciation expense for the years ended December 31, 2017 and 2016 and a corresponding reduction in net asset value of \$2,243,000 and \$2,182,000 has not been recorded at December 31, 2017 and 2016.

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

NOTES TO COMBINED FINANCIAL STATEMENTS

December 31, 2017 and 2016

NOTE 2 – SIGNIFICANT ACCOUNTING POLICIES – Continued

Net Assets

The Conference presents its net assets in four categories, which are described as follows:

Unrestricted Net Assets: Net assets that are not subject to donor- imposed restrictions.

Unrestricted Designated Net Assets: Net assets that are internally designated for a specific purpose or activity by the Conference.

Temporarily Restricted Net Assets: Net assets subject to donor-imposed stipulations that may or will be met either by actions of the Conference and/or the passage of time. Also includes camps, retreat centers, conference centers and parsonages.

Permanently Restricted Net Assets: Net assets subject to donor- imposed stipulations that may be maintained permanently by the Conference. Generally, the donors of these assets permit the Conference to use all or part of the income earned on related investments for program operations

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.

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

NOTES TO COMBINED FINANCIAL STATEMENTS

December 31, 2017 and 2016

NOTE 2 – SIGNIFICANT ACCOUNTING POLICIES – Continued

Subsequent Events

The Conference has evaluated events and transactions that occurred between December 31, 2017 and February 10, 2020, 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.

Reclassifications

Certain amounts appearing in the 2016 financial statements have been reclassified to facilitate comparison with the current year's presentation.

NOTE 3 - 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.

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

NOTES TO COMBINED FINANCIAL STATEMENTS

December 31, 2017 and 2016

NOTE 4 – 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, 2017 and 2016

NOTE 4 – 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, 2017:

	Level 1	Level 2	Level 3	Total
Money Market Funds	\$ 537,507	\$	\$	\$ 537,507
Equities	4,385,747			4,385,747
Equities – Mutual Funds	1,430,775			1,430,775
Fixed Income	464,910			464,910
Fixed Income – Mutual Funds	149,322			149,322
Exchange Traded Funds	2,090,140			2,090,140
Pooled Investment Funds		37,168,829		37,168,829
Total Assets at Fair Value	\$ 9,058,401	\$ 37,168,829	\$ 0	\$ 46,227,230

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, 2016:

	Level 1	Level 2	Level 3	Total
Money Market Funds	\$ 675,997	\$	\$	\$ 675,997
Certificates of Deposit	1,015,890			1,015,890
Mutual Funds	6,834,042			6,834,042
Stocks	1,129,833			1,129,833
Bonds	23,280			23,280
Fixed Rate Securities	675,997			33,609,082
Pooled Investment Funds		33,609,082		675,997
Total Assets at Fair Value	\$ 9,679,042	\$ 33,609,082	\$ 0	\$ 43,288,124

Investment return including interest, dividends, net realized and unrealized gains and (losses) for the years ended December 31, 2017 and 2016 was approximately \$5,930,000 and \$3,082,000, respectively.

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

December 31, 2017 and 2016

NOTE 5 - PROPERTY AND EQUIPMENT

The following are carried as Fixed Assets in the statement of financial position of the Conference at December 31, 2017 and 2016, using the various recording methods for the four conferences as united in July 2010.

	2017	2016
Camps	\$ 9,709,084	\$ 9,715,084
Parsonages and Episcopal Residence	2,444,197	2,853,302
Office Equipment	356,468	139,203
Conference Center	3,768,890	3,026,661
	<u>16,278,639</u>	<u>15,734,250</u>
Less: Accumulated Depreciation (Through 6/30/10)	<u>(2,366,142)</u>	<u>(2,401,113)</u>
Total	<u>\$ 13,912,497</u>	<u>\$ 13,333,137</u>

NOTE 6 – 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, 2017 and 2016 the total church loan balances outstanding were \$177,283 and \$187,794, respectively. The Conference has recorded a reserve of \$107,500 for potential uncollectible church loans for each of the years ended December 31, 2017 and 2016.

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, 2017 and 2016 the total Bulson student loan balances outstanding were \$90,748 and \$95,286, respectively.

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NOTES TO COMBINED FINANCIAL STATEMENTS

December 31, 2017 and 2016

NOTE 7 - 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.

	2017	2016
Balances at Beginning of Year	\$ 1,244,230	\$ 1,192,994
Investment Income (Loss) - Net of Fees	57,084	74,196
Paid to Designated Beneficiaries	<u>(7,823)</u>	<u>(22,960)</u>
Balances at December 31	<u>\$ 1,293,491</u>	<u>\$ 1,244,230</u>

NOTE 8 - 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 Unrestricted, Temporarily Restricted and Permanently Restricted are outlined in the Summary of Accounting Policies above. The following is a summary of the funds designations being used by the Conference:

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

Investment Funds – Includes the interest, dividend, 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.

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NOTES TO COMBINED FINANCIAL STATEMENTS

December 31, 2017 and 2016

NOTE 9 - 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. There have been no significant changes that affect comparability of the 2017 and 2016 contributions.

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, 2017, the date for which the most current information is available, the Pre-1982 Plan for all Conferences had assets of \$2,203,789,443 and liabilities of \$2,056,799,734 for a net funded status of \$146,989,709. As of January 1, 2017, the date for which the most current information is available, the CRSP-DB and MPP Plans for all Conferences had assets of \$5,402,296,560 and liabilities of \$5,121,160,159 for a net funded status of \$281,136,401.

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NOTES TO COMBINED FINANCIAL STATEMENTS

December 31, 2017 and 2016

NOTE 9 – 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 2017:

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

As of January 1, 2017, the valuation date for 2019 contributions, the Pre-1982 Plan had a funded status of 99%. Expense for the years ended December 31, 2017 and 2016 amounted to \$0 for each year.

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 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)

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, 2017, the valuation date for 2019 contributions, the CRSP-Defined Benefit plan had a funded status of 106%. Expense for the years ended December 31, 2017 and 2016 amounted to \$2,417,581 and \$2,135,853, respectively.

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 years ended December 31, 2017 and 2016 for CRSP-DC for clergy amounted to \$498,794 and \$542,095, respectively.

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NOTES TO COMBINED FINANCIAL STATEMENTS

December 31, 2017 and 2016

NOTE 9 – 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 years ended December 31, 2017 and 2016 amounted to \$143,609 and \$142,229, respectively.

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, 2017 for this plan was \$144,528.

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 years ended December 31, 2017 and 2016 for clergy CPP programs amounted to \$541,961 and \$539,114, respectively.

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.

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NOTES TO COMBINED FINANCIAL STATEMENTS

December 31, 2017 and 2016

NOTE 9 – 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 2017 was \$2,678 and for 2016 was \$2,600, 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, 2016 in February 2017. The accumulated postretirement benefit obligation (APBO) as calculated by Willis Towers Watson PLC at December 31, 2016 is \$27,299,984. The Conference has elected not to record the obligation at December 31, 2016.

Assumptions used:

Discount Rate	3.80%
Current Health Care Cost Trend Rate	6.50%
Ultimate Health Care Cost Trend Rate	5.00%
Year that the rate reaches the ultimate trend rate	2023
Census Date	1/1/2017

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 liability cannot be computed, thus resulting in the inability to record such amount in the combined financial statements for the year ending December 31, 2017. The effect on the 2017 statements has not been determined.

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.

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

December 31, 2017 and 2016

NOTE 11 – COMMITMENTS

The Trustees guarantee loans for a few member churches. At December 31, 2017 the guarantees are approximately \$942,000 and are secured by the Trustees' assets.

NOTE 12 – OPERATING LEASES

The Conference leased office space from one of its member churches under an operating lease expiring in October 2016 and subsequently extended on a month to month basis through March 2017. Rent expense for the year ended December 31, 2016 amounted to approximately \$27,000.

The Conference also leases multiple small offices for its district superintendents and New Faith Communities under short term operating leases. Rent expense for the years ended December 31, 2017 and 2016 amounted to approximately \$89,200 and \$110,500, respectively.

NOTE 13 – 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.

**UPPER NEW YORK ANNUAL CONFERENCE
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COMBINING STATEMENT OF ACTIVITIES - 2017

Year Ended December 31, 2017

	General Funds	Investment Funds	Trustee Funds	CBOPH Funds	3rd Party Funds	2017 Combined
Revenues						
Ministry Shares	\$ 8,635,800	\$ 0	\$ 0	\$ 0	\$ 0	\$ 8,635,800
Donations, Grants & Reimbursements	790,007	0	64,560	0	86,754	941,321
Direct Billed Benefits & Master Insurance Plan	(27)	0	69,731	6,918,343	0	6,988,047
Event Registration & Income	290,925	0	0	0	242,492	533,417
Camp & Retreat Revenue & Sales	2,404,142	0	3,449	27,092	14,069	2,448,752
Property Sales & Insurance Proceeds	6,021	0	526,228	0	0	532,249
Investment Income	118,098	0	164,709	5,647,773	0	5,930,580
Interfund Transfers	222,250	0	(222,250)	0	0	0
Total Revenues	12,467,216	0	606,427	12,593,208	343,315	26,010,166
Expenses						
General Church Ministry Support	2,171,507	0	0	0	0	2,171,507
Compensation - Salaries, Wages & Housing Allowances	4,204,520	0	0	0	30,348	4,234,868
Fringe Benefits - Health Insurance, Pension & Workers' Comp	1,448,037	0	0	8,330,134	3,031	9,781,202
Employment Costs - Training, Recruitment & Moving Expenses	402,050	0	0	9,184	0	411,234
Program, Grants & Discretionary Expenditures	744,390	0	19,500	64,428	247,769	1,076,087
Travel, Mileage & Hospitality	570,463	0	810	0	13,847	585,120
Professional Services	271,764	0	104,545	0	16,000	392,309
Supplies - Food, Program & Maintenance Costs	641,736	0	0	0	2,090	643,826
Fees & Services	237,946	0	605	0	1,023	239,574
Facilities & Equipment- Maintenance Costs	676,678	0	77,576	0	0	754,254
Insurance Plan Cost	78,818	0	138,638	0	0	217,456
Rent & Property Tax Expenses	138,655	0	9,243	0	2,520	150,418
Utilities & Communications	405,003	0	26,786	0	371	432,160
Other	145,979	0	245,065	28,497	0	419,541
Total Expenses	12,137,546	0	622,768	8,432,243	316,999	21,509,556
Change in Net Assets - Increase (Decrease)	329,670	0	(16,341)	4,160,965	26,316	4,500,610
Net Assets - Beginning of Year	12,530,368	5,919,619	9,569,887	30,886,919	136,295	59,043,088
Interfund Reclassifications	2,677,932	(5,919,619)	2,695,259	523,268	23,160	0
Net Assets - End of Year	\$ 15,537,970	\$ -	\$ 12,248,805	\$ 35,571,152	\$ 185,771	\$ 63,543,698

See independent auditors' report.

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COMBINING STATEMENT OF ACTIVITIES - 2016

Year Ended December 31, 2016

	General Funds	Investment Funds	Trustee Funds	CBOPH Funds	3rd Party Funds	2016 Combined
Revenues						
Ministry Shares	\$ 8,597,328	\$ 0	\$ 0	\$ 0	\$ 0	\$ 8,597,328
Donations, Grants & Reimbursements	1,437,748	0	115,137	0	96,448	1,649,333
Direct Billed Benefits & Master Insurance Plan	567	0	0	7,172,383	0	7,172,950
Event Registration & Income	365,162	0	0	0	146,877	512,039
Camp & Retreat Revenue & Sales	2,187,480	0	0	0	14,118	2,201,598
Property Sales & Insurance Proceeds	16,789	0	636,209	0	0	652,998
Investment Income	15,556	1,367,317	97,988	1,601,397	0	3,082,258
Interfund Transfers	228,230	(228,230)	0	0	0	0
Total Revenues	12,848,860	1,367,317	621,104	8,773,780	257,443	23,868,504
Expenses						
General Church Ministry Support	2,133,967	0	0	0	0	2,133,967
Compensation - Salaries, Wages & Housing Allowances	4,150,617	0	0	0	35,985	4,186,602
Fringe Benefits - Health Insurance, Pension & Workers' Comp	1,415,231	0	799	8,060,443	3,050	9,479,523
Employment Costs - Training, Recruitment & Moving Expenses	371,816	0	0	8,442	232	380,490
Program, Grants & Discretionary Expenditures	922,796	0	97,762	105,936	176,700	1,303,194
Travel, Mileage & Hospitality	529,950	0	403	26	36,340	566,719
Professional Services	242,274	3,543	171,869	18,850	17,095	453,631
Supplies - Food, Program & Maintenance Costs	619,660	0	98	0	9,911	629,669
Fees & Services	230,874	0	21,882	4,692	1,651	259,099
Facilities & Equipment- Maintenance Costs	320,651	0	69,264	0	0	389,915
Insurance Plan Cost	61,870	0	178,737	0	237	240,844
Rent & Property Tax Expenses	224,949	0	35,522	0	800	261,271
Utilities & Communications	326,001	0	36,936	0	0	362,937
Other	339,919	0	88,976	52,849	0	481,744
Total Expenses	11,890,575	3,543	702,248	8,251,238	282,001	21,129,605
Change in Net Assets - Increase (Decrease)	958,285	1,363,774	(81,144)	522,542	(24,558)	2,738,899
Net Assets - Beginning of Year	11,174,142	4,965,218	9,671,740	30,364,377	128,712	56,304,189
Interfund Reclassifications	397,941	(409,373)	(20,709)	0	32,141	0
Net Assets - End of Year	\$ 12,530,368	\$ 5,919,619	\$ 9,569,887	\$ 30,886,919	\$ 136,295	\$ 59,043,088

See independent auditors' report.