

**NORTH CAROLINA CONFERENCE,
SOUTHEASTERN JURISDICTION, OF
THE UNITED METHODIST CHURCH, INC. AND AFFILIATES**

CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2019 AND 2018

NORTH CAROLINA CONFERENCE,
SOUTHEASTERN JURISDICTION, OF
THE UNITED METHODIST CHURCH, INC. AND AFFILIATES

Table of Contents

	<u>Page</u>
INDEPENDENT AUDITOR’S REPORT.....	1 - 2
FINANCIAL STATEMENTS	
Consolidated Statements of Financial Position	3
Consolidated Statements of Activities.....	4
Consolidated Statements of Functional Expenses	5 - 8
Consolidated Statements of Cash Flows.....	9
Notes to Consolidated Financial Statements	10 - 34
SUPPLEMENTARY INFORMATION	
Consolidating Schedule of Financial Position.....	35
Schedule of Financial Position Detail, Summary of Investments, Conference.....	36
Schedule of Central Fund Activities.....	37



Independent Auditor's Report

To the Council on Finance and Administration
North Carolina Conference, Southeastern
Jurisdiction, of The United Methodist Church, Inc.
Garner, North Carolina

We have audited the accompanying consolidated financial statements of North Carolina Conference, Southeastern Jurisdiction, of The United Methodist Church, Inc. and affiliates (the "Conference") (a nonprofit organization), which comprise the consolidated statements of financial position as of December 31, 2019 and 2018, and the related consolidated statements of activities, functional expenses, and cash flows for the years then ended and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated 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 consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

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



To the Council on Finance and Administration
North Carolina Conference, Southeastern
Jurisdiction, of The United Methodist Church, Inc.

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of North Carolina Conference, Southeastern Jurisdiction, of The United Methodist Church, Inc. and Affiliates as of December 31, 2019 and 2018, and the changes in their net assets and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matter

Our audits were conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The supplementary schedules on pages 35 - 37 are presented for purposes of additional analysis and are not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the consolidated financial statements as a whole.

Crosslin, PLLC

Nashville, Tennessee
June 5, 2020

NORTH CAROLINA CONFERENCE,
SOUTHEASTERN JURISDICTION, OF
THE UNITED METHODIST CHURCH, INC. AND AFFILIATES
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

ASSETS

	December 31,	
	2019	2018
Cash and cash equivalents	\$ 6,202,894	\$ 10,077,344
Accounts receivable	2,471,808	3,414,601
Contributions receivable	-	2,996,389
Agency receivables	139,648	250,934
Investments	146,864,915	127,215,604
Mortgage loans receivable from local churches, less allowance for loan losses of \$329,092 and \$359,095 at December 31, 2019 and 2018, respectively	3,250,328	3,525,472
Other assets	316,718	525,961
Property and equipment, net	7,076,446	6,651,419
Total assets	\$ 166,322,757	\$ 154,657,724

LIABILITIES AND NET ASSETS

Liabilities:		
Accounts payable and accrued expenses	\$ 4,324,483	\$ 4,187,205
Accumulated postretirement benefit obligation	30,395,244	28,912,823
Total liabilities	34,719,727	33,100,028
Net assets without donor restrictions:		
Designated, next year's approved budget	13,651,516	14,145,361
Designated, reserve projects	-	505,272
Designated, postretirement benefit budget	22,602,262	21,558,652
Designated, board restricted endowment	1,000,000	1,000,000
Undesignated	85,239,229	70,332,959
Net assets with donor restrictions	9,110,023	14,015,452
Total net assets	131,603,030	121,557,696
Total liabilities and net assets	\$ 166,322,757	\$ 154,657,724

See notes to consolidated financial statements.

NORTH CAROLINA CONFERENCE,
SOUTHEASTERN JURISDICTION, OF
THE UNITED METHODIST CHURCH, INC. AND AFFILIATES
CONSOLIDATED STATEMENTS OF ACTIVITIES

	December 31, 2019			December 31, 2018		
	Without Donor Restrictions	With Donor Restrictions	Total	Without Donor Restrictions	With Donor Restrictions	Total
Revenues, gains and other support:						
Apportionments	\$ 16,369,011	\$ -	\$ 16,369,011	\$ 17,143,674	\$ -	\$ 17,143,674
Other church remittances	111,218	-	111,218	179,311	-	179,311
Contributions	264,477	2,298,667	2,563,144	1,957,876	6,483,250	8,441,126
Insurance premiums	8,924,158	-	8,924,158	8,683,008	-	8,683,008
Registration fees	440,672	-	440,672	389,807	-	389,807
Investment income, net	6,858,900	36,696	6,895,596	5,983,583	163,087	6,146,670
Pension plan funding	3,750,135	-	3,750,135	6,283,768	-	6,283,768
Grants	-	6,242,198	6,242,198	-	4,464,958	4,464,958
Other	2,018,982	-	2,018,982	2,757,289	-	2,757,289
Total revenues, gains, and other support	<u>38,737,553</u>	<u>8,577,561</u>	<u>47,315,114</u>	<u>43,378,316</u>	<u>11,111,295</u>	<u>54,489,611</u>
Net assets released from donor restrictions	<u>8,853,752</u>	<u>(8,853,752)</u>	<u>-</u>	<u>9,420,620</u>	<u>(9,420,620)</u>	<u>-</u>
Expenses and distributions:						
Program:						
Benefit and welfare	16,377,626	-	16,377,626	15,662,056	-	15,662,056
Benevolent funds	98,288	-	98,288	83,661	-	83,661
Christian formation	3,318,105	-	3,318,105	3,083,598	-	3,083,598
Disaster response and recovery	6,547,050	-	6,547,050	3,617,217	-	3,617,217
District missions	959,404	-	959,404	1,226,693	-	1,226,693
General church disbursements	3,481,033	-	3,481,033	3,612,683	-	3,612,683
ZOE Ministry	-	-	-	4,655,349	-	4,655,349
Outreach Ministry	668,039	-	668,039	771,119	-	771,119
Leadership	450,245	-	450,245	426,196	-	426,196
Stewardship	190,295	-	190,295	203,966	-	203,966
Other	498,088	-	498,088	417,540	-	417,540
Administrative:						
Stewardship	3,365,964	-	3,365,964	3,250,053	-	3,250,053
District superintendent offices	2,367,029	-	2,367,029	2,362,809	-	2,362,809
Property Management	1,371,080	-	1,371,080	1,590,411	-	1,590,411
Leadership	951,878	-	951,878	915,433	-	915,433
Other	228,498	-	228,498	117,647	-	117,647
Total expenses and distributions	<u>40,872,622</u>	<u>-</u>	<u>40,872,622</u>	<u>41,996,431</u>	<u>-</u>	<u>41,996,431</u>
Change in net assets from operating activities	6,718,683	(276,191)	6,442,492	10,802,505	1,690,675	12,493,180
Nonoperating:						
Unrealized appreciation (depreciation) on investments	15,703,838	462,609	16,166,447	(12,705,598)	(325,740)	(13,031,338)
Postretirement changes other than net periodic postretirement cost	(6,437,212)	-	(6,437,212)	(2,805,186)	-	(2,805,186)
Contribution of ZOE Ministry net assets	(1,034,546)	(5,091,847)	(6,126,393)	-	-	-
Change in net assets	<u>14,950,763</u>	<u>(4,905,429)</u>	<u>10,045,334</u>	<u>(4,708,279)</u>	<u>1,364,935</u>	<u>(3,343,344)</u>
Net assets at beginning of year	<u>107,542,244</u>	<u>14,015,452</u>	<u>121,557,696</u>	<u>112,250,523</u>	<u>12,650,517</u>	<u>124,901,040</u>
Net assets at end of year	<u>\$ 122,493,007</u>	<u>\$ 9,110,023</u>	<u>\$ 131,603,030</u>	<u>\$ 107,542,244</u>	<u>\$ 14,015,452</u>	<u>\$ 121,557,696</u>

See notes to consolidated financial statements.

NORTH CAROLINA CONFERENCE,
SOUTHEASTERN JURISDICTION, OF
THE UNITED METHODIST CHURCH, INC. AND AFFILIATES
STATEMENT OF FUNCTIONAL EXPENSES
YEAR ENDED DECEMBER 31, 2019

	Program Expenses						
	Benefit and Welfare	Benevolent Funds	Christian Formation	Disaster Response and Recovery	District Missions	General Church Disbursements	Outreach Ministry
Employee Salary & Benefits	\$ 373,018	\$ -	\$ 1,392,161	\$ 2,565,798	\$ 441,817	\$ 3,517	\$ 25,946
Clergy Benefits	9,439,739	-	-	-	-	-	-
Benefits Administration	4,765,885	-	-	-	-	-	-
Travel Expenses	18,650	1,951	152,690	134,840	141,463	-	30,607
Maintenance & Depreciation	2,260	264	1,264	97,675	3,737	-	82
Utilities	-	-	1,455	2,015	2,993	-	-
Insurance	-	1,649	507	23,153	1,655	-	2,117
Taxes & Fees	-	-	886	20,893	1,888	-	-
Fees & Subscriptions	27,496	315	68,446	13,315	11,745	-	1,158
Office Expenses	2,195	7,974	28,328	34,803	20,835	-	9,915
Professional Services	62,073	-	163,493	13,898	56,306	-	53,111
Programs & Events	356,252	22,360	837,692	80,237	55,443	3,473,329	217,064
Grants & Scholarships	101,102	63,775	671,084	285,454	215,271	4,187	328,039
Disaster Response Work Team Expenses	-	-	-	3,256,120	-	-	-
Miscellaneous	1,226,955	-	-	6,782	-	-	-
Fixed Asset Purchases	2,001	-	99	12,067	6,251	-	-
Other Transfers	-	-	-	-	-	-	-
	<u>\$ 16,377,626</u>	<u>\$ 98,288</u>	<u>\$ 3,318,105</u>	<u>\$ 6,547,050</u>	<u>\$ 959,404</u>	<u>\$ 3,481,033</u>	<u>\$ 668,039</u>

See notes to consolidated financial statements.

Administrative Expenses

			District						
Leadership	Stewardship	Other	Stewardship	Superintendent Offices	Property Management	Leadership	Other	Total	
\$ 81,683	\$ -	\$ -	\$ 2,561,202	\$ 2,260,437	\$ 87,740	\$ 360,765	\$ 14,334	\$ 10,168,418	
-	-	-	-	-	-	-	-	9,439,739	
-	-	-	-	-	-	-	-	4,765,885	
33,832	1,588	3,222	232,730	98,727	1,247	173,576	17,958	1,043,081	
-	-	-	5,318	300	523,550	11	22,905	657,366	
-	-	-	-	-	72,244	-	-	78,707	
-	-	-	-	-	64,620	-	5,401	99,102	
-	-	-	-	-	30,840	-	1,591	56,098	
312	-	60	137,414	4,286	2,336	2,482	50,852	320,217	
1,472	34	3,250	87,667	2,480	7,399	12,871	86,171	305,394	
65,468	5,500	-	154,389	65	82,071	93,637	5,837	755,848	
53,096	-	423	84,218	161	-	256,999	1,950	5,439,224	
214,382	183,173	491,125	65,474	24	149,057	25,814	16,319	2,814,280	
-	-	-	-	-	-	-	-	3,256,120	
-	-	-	3,300	-	(511)	-	5,180	1,241,706	
-	-	-	34,252	549	350,487	790	-	406,496	
-	-	8	-	-	-	24,933	-	24,941	
<u>\$ 450,245</u>	<u>\$ 190,295</u>	<u>\$ 498,088</u>	<u>\$ 3,365,964</u>	<u>\$ 2,367,029</u>	<u>\$ 1,371,080</u>	<u>\$ 951,878</u>	<u>\$ 228,498</u>	<u>\$ 40,872,622</u>	

NORTH CAROLINA CONFERENCE,
SOUTHEASTERN JURISDICTION, OF
THE UNITED METHODIST CHURCH, INC. AND AFFILIATES
STATEMENT OF FUNCTIONAL EXPENSES
YEAR ENDED DECEMBER 31, 2018

	Program Expenses							
	Benefit and Welfare	Benevolent Funds	Christian Formation	Disaster Response and Recovery	District Missions	General Church Disbursements	ZOE Ministry	Outreach Ministry
Employee Salary & Benefits	\$ 351,323	\$ -	\$ 1,200,040	\$ 1,027,486	\$ 601,227	\$ 3,077	\$ 542,620	\$ 15,363
Clergy Benefits	10,035,140	-	-	-	-	-	-	-
Benefits Administration	4,730,446	-	-	-	-	-	-	-
Travel Expenses	22,123	6,814	132,876	34,312	187,547	-	256,584	44,021
Maintenance & Depreciation	2,000	35	2,568	52,303	3,695	-	1,141	5,858
Utilities	-	-	3,661	11,735	4,852	-	-	-
Insurance	-	1,556	476	11,727	1,560	-	2,807	2,013
Taxes & Fees	-	-	865	5,130	1,050	-	-	-
Fees & Subscriptions	27,048	160	61,105	3,866	12,840	-	165,943	3,671
Office Expenses	3,408	99	17,567	15,422	25,779	-	53,341	15,521
Professional Services	48,016	-	112,195	6,652	53,178	-	194,169	43,704
Programs & Events	315,985	5,487	780,081	16,777	67,065	3,557,200	5,374	277,194
Grants & Scholarships	121,088	68,350	771,100	1,002,566	262,811	52,406	3,430,750	363,774
Disaster Response Work Team Expenses	-	-	-	1,420,799	352	-	-	-
Miscellaneous	5,479	-	-	6,331	-	-	(346)	-
Fixed Asset Purchases	-	1,160	1,064	2,111	4,737	-	2,966	-
Other Transfers	-	-	-	-	-	-	-	-
	<u>\$ 15,662,056</u>	<u>\$ 83,661</u>	<u>\$ 3,083,598</u>	<u>\$ 3,617,217</u>	<u>\$ 1,226,693</u>	<u>\$ 3,612,683</u>	<u>\$ 4,655,349</u>	<u>\$ 771,119</u>

See notes to consolidated financial statements.

Administrative Expenses

			District						
Leadership	Stewardship	Other	Stewardship	Superintendent Offices	Property Management	Leadership	Other	Total	
\$ 21,777	\$ -	\$ -	\$ 2,590,705	\$ 2,262,996	\$ 57,218	\$ 319,588	\$ 14,247	\$ 9,007,667	
-	-	-	-	-	-	-	-	10,035,140	
-	-	-	-	-	-	-	-	4,730,446	
34,387	1,296	485	207,289	91,489	681	179,294	4,926	1,204,124	
-	-	-	5,284	300	403,397	25	23,363	499,969	
-	-	-	-	-	65,508	-	-	85,756	
-	-	-	-	-	65,806	-	5,107	91,052	
-	-	-	384	-	41,541	-	2,084	51,054	
220	-	55	68,824	4,866	1,220	3,312	63,670	416,800	
1,148	58	2,952	89,266	2,512	10,198	12,523	53,842	303,636	
84,391	4,022	-	130,515	-	47,173	186,916	15,136	926,067	
62,572	-	532	131,829	526	69	170,669	265	5,391,625	
221,701	198,590	413,516	727	-	888,360	14,842	33,961	7,844,542	
-	-	-	-	-	-	-	-	1,421,151	
-	-	-	3,124	-	(667)	196	(98,954)	(84,837)	
-	-	-	22,106	120	9,907	-	-	44,171	
-	-	-	-	-	-	28,068	-	28,068	
<u>\$ 426,196</u>	<u>\$ 203,966</u>	<u>\$ 417,540</u>	<u>\$ 3,250,053</u>	<u>\$ 2,362,809</u>	<u>\$ 1,590,411</u>	<u>\$ 915,433</u>	<u>\$ 117,647</u>	<u>\$ 41,996,431</u>	

NORTH CAROLINA CONFERENCE,
SOUTHEASTERN JURISDICTION, OF
THE UNITED METHODIST CHURCH, INC. AND AFFILIATES
CONSOLIDATED STATEMENTS OF CASH FLOWS

	Years Ended December 31,	
	2019	2018
Increase (decrease) in net assets	\$ 10,045,334	\$ (3,343,344)
Adjustments to reconcile increase (decrease) in net assets to net cash (used in) provided by operating activities:		
Depreciation	459,094	325,829
Change in allowance for loan losses	(30,003)	(130,133)
Unrealized (appreciation) depreciation of investments	(16,166,447)	13,031,338
Net realized gain on sale of investments	(5,011,127)	(4,536,547)
Loss on disposal of property and equipment	304,246	59,591
Gain on receipt of abandoned property	(741,000)	(899,811)
Changes in assets and liabilities:		
Decrease (increase) in accounts receivable	942,793	(553,976)
Decrease (increase) in agency receivables	111,286	(43,798)
Decrease (increase) in contributions receivable	2,996,389	(305,447)
Decrease in other assets	950,243	2,022,794
Increase in accounts payable and accrued expenses	137,278	30,666
Increase (decrease) in accumulated postretirement benefit liability	1,482,421	(2,477,057)
Net cash (used in) provided by operating activities	(4,519,493)	3,180,105
Cash flows from investing activities:		
Purchases of investments with United Methodist Foundation	(4,541,786)	(8,608,493)
Proceeds from sales of investments with United Methodist Foundation	2,906,632	3,518,346
Purchases of other investments	(8,240,456)	(14,509,297)
Proceeds from sales of other investments	11,403,873	17,815,407
Mortgage loans originated	(333,000)	(1,114,348)
Principal payments received on mortgage loans	638,147	1,178,478
Acquisition of property and equipment	(1,188,367)	(644,850)
Net cash provided by (used in) investing activities	645,043	(2,364,757)
Net (decrease) increase in cash and cash equivalents	(3,874,450)	815,348
Cash and cash equivalents at beginning of year	10,077,344	9,261,996
Cash and cash equivalents at end of year	\$ 6,202,894	\$ 10,077,344

See notes to consolidated financial statements.

NORTH CAROLINA CONFERENCE,
SOUTHEASTERN JURISDICTION, OF
THE UNITED METHODIST CHURCH, INC. AND AFFILIATES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2019 AND 2018

A. NATURE OF ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES

The North Carolina Conference, Southeastern Jurisdiction, of The United Methodist Church, Inc. and Affiliates (the “Conference”) are incorporated in the State of North Carolina and together constitute the fundamental body of The United Methodist Church in Eastern North Carolina, which, under Episcopal leadership, provides the mechanism for admitting and ordaining clergy, appointing itinerant pastors to churches, and supplying them with mutual support. The Conference is composed of ministerial and lay members and other individuals as required in *The Book of Discipline of The United Methodist Church*, which defines the programs and responsibilities of the Church as a whole.

A summary of the Conference’s significant accounting policies follows:

Principles of Consolidation

The Conference’s consolidated financial statements include the accounts of the 8 District Superintendent offices of the Conference, the Board of Missions, North Carolina Annual Conference, Southeastern Jurisdiction of The United Methodist Church, Inc. (d/b/a Board of Missions, Inc.), The Board of Trustees of the North Carolina Annual Conference, Southeastern Jurisdiction, of The United Methodist Church, Inc. (d/b/a Board of Trustees, Inc.) and ZOE Ministry (“ZOE”). Under generally accepted accounting principles, the Conference demonstrates control and economic interest in these entities, and therefore, the Conference financial statements are presented on a consolidated basis. All significant intercompany accounts and transactions have been eliminated in the consolidation.

On January 1, 2019, ZOE formally changed its relationship with the Conference. Prior to this date, the Conference demonstrated control and economic interest over ZOE by assigning 51% of its board of directors and providing a significant amount of in-kind accounting services. Effective January 1, 2019, ZOE began assigning its own board members and now outsources its accounting services to an external company. Consolidation of ZOE’s transactions into the Conference’s financial statements was not necessary in fiscal year 2019.

Basis of Presentation

For reporting purposes, the Conference’s financial statements have been prepared to focus on the Conference as a whole. Resources are classified into two net asset categories based on the existence or absence of donor-imposed restrictions. Accordingly, the net assets of the Conference and changes therein are classified and reported as follows:

NORTH CAROLINA CONFERENCE,
SOUTHEASTERN JURISDICTION, OF
THE UNITED METHODIST CHURCH, INC. AND AFFILIATES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2019 AND 2018

A. NATURE OF ORGANIZATION AND SIGNIFICANT ACCOUNTING
POLICIES - Continued

Net Assets Without Donor Restrictions - Net assets that are not subject to donor-imposed restrictions and may be expended for any purpose in performing the primary objectives of the Conference. These net assets may be used at the discretion of the Conference's management and the board of directors.

Net Assets With Donor Restrictions - Net assets subject to stipulations imposed by donors and grantors. Some donor restrictions are temporary in nature; those restrictions will be met by actions of the Conference or by the passage of time. Other donor restrictions are perpetual in nature, whereby the donor has stipulated the funds be maintained in perpetuity, but may permit the Conference to use or expend part or all of the income derived from the donated assets.

Estimates

In preparing its consolidated financial statements, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities as of the date of the consolidated statements of financial position and the reported amounts of revenues and expenses in the consolidated statements of activities for the reporting period. Actual results could differ from those estimates.

Revenue and Support

The principal source of revenue and support is apportionments received from the local churches. Apportionments are the recommended levels of support assigned to local churches and expire at the end of each calendar year. Local churches do not have any commitment on any underpayment of their apportionments.

Cash and Cash Equivalents

The Conference deposits its cash in large commercial financial institutions. At times, such balances may exceed the Federal depository insurance limits but the Conference believes such amounts do not represent a significant credit risk. Cash equivalents include certificates of deposit with an original maturity date of three months or less.

Accounts Receivable

Since a significant dollar amount of member church support is received close to the Conference's year-end, the Conference provides the member churches with a cut-off date subsequent to year-end in order for churches to fulfill their annual apportionments. Thus, the Conference recognizes accounts receivable at the dollar amount of apportionments received by the cut-off date related to the prior year.

NORTH CAROLINA CONFERENCE,
SOUTHEASTERN JURISDICTION, OF
THE UNITED METHODIST CHURCH, INC. AND AFFILIATES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2019 AND 2018

A. NATURE OF ORGANIZATION AND SIGNIFICANT ACCOUNTING
POLICIES - Continued

Mortgage Loans Receivable

Mortgage loans receivable are stated at the amount of unpaid principal less an allowance for loan losses. The allowance for loan losses is established through a provision for loan losses charged to operations. The allowance is an amount that management believes will be adequate to absorb losses on existing loans, including any accrued interest that may become uncollectible based on evaluations of the collectability of loans and prior loan loss experience. In certain instances, the terms of loans in the portfolio may be modified at the request of the borrower by deferring scheduled interest payments until a later date. Loans that are modified are placed on non-accrual status. The evaluations undertaken by management to establish the allowance take into account such factors as changes in the nature and volume of loan portfolio, review of specific loan performance, overall portfolio quality, and current economic conditions that may affect the borrowers' ability to pay. While management uses the best information available to make evaluations, future adjustments may be necessary if economic or other conditions differ substantially from the assumptions used. Loans are charged off against the allowance when management believes that collectability is unlikely.

Contributions

The Conference reports gifts of cash and other assets as restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or the purpose of the restriction is accomplished, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the statements of activities as net assets released from restrictions.

Contributions receivable are recorded at their estimated fair value and reflect discounts for payment terms greater than one year, if applicable. Contributions receivable are considered to be either conditional or unconditional promises to give. A conditional contribution is one which depends on the occurrence of some specified uncertain future event to become binding on the donor. Conditional contributions are not recorded as revenue until the condition is met, at which time they become unconditional. Unconditional contributions are recorded as revenue at the time verifiable evidence of the promise to give is received. The Conference has determined that all contributions received in 2019 and 2018 are unconditional promises to give.

NORTH CAROLINA CONFERENCE,
SOUTHEASTERN JURISDICTION, OF
THE UNITED METHODIST CHURCH, INC. AND AFFILIATES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2019 AND 2018

A. NATURE OF ORGANIZATION AND SIGNIFICANT ACCOUNTING
POLICIES - Continued

Fair Value of Financial Instruments

The carrying value of cash equivalents and mortgage loans receivable from local churches approximates fair value. Investments in equity securities with readily determinable fair values and all investments in debt securities are stated at fair value, with fair value measured as described in Note J. Changes in fair value of investments, including both realized and unrealized gains and losses, are included in the accompanying consolidated statements of activities. In determining realized gains and losses, the cost of investments is determined using the specific-identification method.

Property and Equipment

Purchased land, buildings and equipment have been recorded at cost, less accumulated depreciation, since 1983. Prior to 1983, if historical costs were unavailable, estimated historical costs were used. Church properties assumed by the Conference, as well as land donated to the Conference, are initially recorded at their estimated fair value at the time of receipt.

Depreciation is computed using the straight-line method over the following estimated useful lives:

	<u>Years</u>
Buildings	30 - 40
Improvements to buildings	10 - 40
Improvements to land	10 - 40
Furniture and equipment	5 - 15

Impairment of Long-lived Assets

The Conference reviews its long-lived assets, including equipment and buildings, for impairment whenever events or changes in circumstances indicate that the carrying amount of the assets may not be fully recoverable. To determine the recoverability of its long-lived assets, the Conference evaluates the probability that future estimated undiscounted net cash flows will be less than the carrying amount of the assets. If such estimated cash flows are less than the carrying amount of the long-lived assets, then such assets are written down to their fair value. There has been no impairment of long-lived assets during 2019 or 2018.

NORTH CAROLINA CONFERENCE,
SOUTHEASTERN JURISDICTION, OF
THE UNITED METHODIST CHURCH, INC. AND AFFILIATES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2019 AND 2018

A. NATURE OF ORGANIZATION AND SIGNIFICANT ACCOUNTING
POLICIES - Continued

Mission Endowment Fund

The Conference established an endowment fund known as the North Carolina Annual Conference Mission Endowment (the “Endowment”) with which funds will be held by the United Methodist Foundation, Inc. and Affiliate (the “Foundation”). The Council on Finance and Administration designated \$1,000,000 to the Endowment for the purpose of supporting transformational mission opportunities primarily in eastern North Carolina. The Endowment also includes donor-restricted funds which have been classified as with which earnings are restricted until spent for its intended use. As required by generally accepted accounting principles (“GAAP”), net assets associated with endowment funds, including designated by the Board of Trustees to function as endowment, are classified and reported based on the existence or absence of donor-imposed restrictions.

ZOE Ministry Endowment Fund

ZOE established an endowment fund known as the ZOE Ministry Endowment Fund (the “Endowment”) with which funds will be held by the Foundation. This fund is not included in the consolidated financial statements at December 31, 2019, as ZOE is no longer controlled by the Conference.

Postretirement Benefits Other than Pension

The Conference recognizes net periodic postretirement cost and accumulation of such costs as plan participants render the services necessary to earn their postretirement benefits. Plan participants include clergy members and lay staff of the Annual Conference who meet eligibility guidelines for each postretirement plan. The postretirement benefits plan is an unfunded plan that provides medical, dental, and life insurance benefits.

The Conference uses an actuary to determine the estimated accumulated postretirement benefit obligation. A change in plan provisions and/or the actuarial assumptions used could significantly change the amount of the accumulated postretirement benefit liability reported in the accompanying consolidated financial statements.

NORTH CAROLINA CONFERENCE,
SOUTHEASTERN JURISDICTION, OF
THE UNITED METHODIST CHURCH, INC. AND AFFILIATES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2019 AND 2018

A. NATURE OF ORGANIZATION AND SIGNIFICANT ACCOUNTING
POLICIES - Continued

Other Accounting Policies

The expenses for each year are financed principally by funds received from revenue from unrestricted apportionments of the previous year. Accordingly, the revenue from apportionments shown in the accompanying consolidated statements of activities will be available for operations budgeted for the ensuing year.

Insurance Premiums

The Conference administers a self-funded insurance program under which health benefits are provided for clergy and selected lay employees of the Conference. Insurance premium revenue and related expenses are recorded in the period for which the premium relates. The Conference accrues for claim expenses which have been incurred but not reported at year-end on an estimated basis.

Program Expenses

Benefit and Welfare - Funding is provided for pension, health insurance, disability and other benefit plans for clergy and lay employees. In addition, funding is provided for grant programs for benefit and welfare assistance for both clergy and laity within the Conference.

Benevolent Funds - Funding is provided for Conference Advance Specials as well as General Advance Specials through church offerings and donations.

Board of Missions, Inc. - The Board of Missions, Inc. (or "BOMI") can assist churches in accessing low interest loans in order to build new structures and refurbish existing structures. With Conference contractors, BOMI can connect churches with construction expertise and facilitate construction partnerships with The Duke Endowment Rural Church Division and other local resources.

Christian Formation - Conference programs which fall under the work of the Christian Formation Team and serve to form and nurture disciples of Jesus Christ. These programs include, but are not limited to, evangelism, education, financial discipleship, worship, youth and children's ministry and emerging church support.

NORTH CAROLINA CONFERENCE,
SOUTHEASTERN JURISDICTION, OF
THE UNITED METHODIST CHURCH, INC. AND AFFILIATES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2019 AND 2018

A. NATURE OF ORGANIZATION AND SIGNIFICANT ACCOUNTING
POLICIES - Continued

Disaster Response and Recovery - Funding is provided for disaster response and recovery efforts in and out of the Conference.

District Missions - Funding is used for the operations of and programs conducted by the eight District Superintendent offices within the Conference.

General Church Disbursements - Payments are made to the General Church for funding received from local churches for General Church apportionments and advance specials.

ZOE Ministry ("ZOE") - This ministry was established to provide a three-year empowerment program for orphan children in Africa and other poverty-stricken countries. This empowerment program teaches children essential life skills, how to grow their own food, start small businesses, and grow in their faith. ZOE is currently active in seven countries (Rwanda, Kenya, Zimbabwe, Malawi, Liberia, India, and Guatemala).

Outreach Ministry - Conference programs which fall under the work of the Outreach Ministry Team and serve to carry forth ministry that transforms the world. Funding is provided for Methodist Home for Children, Methodist Retirement Homes, refugee and immigration, and Disciple Bible Outreach, as well as others.

Leadership - Conference programs which fall under the work of the Leadership Team and serve to equip leaders who implement the Vision of the Conference. These programs include, but are not limited to, multicultural ministry, lay ministry, and effective ministry training.

Stewardship - Conference programs which fall under the work of the Stewardship Team and serve to empower ministry. This includes funding for equitable compensation and connectional ministries grants.

Other - Program expenses are recorded for various programs of the Conference including, but not limited to, local church webhosting, NC Conference Historical Society, clergy counseling, and scholarship funds.

NORTH CAROLINA CONFERENCE,
SOUTHEASTERN JURISDICTION, OF
THE UNITED METHODIST CHURCH, INC. AND AFFILIATES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2019 AND 2018

A. NATURE OF ORGANIZATION AND SIGNIFICANT ACCOUNTING
POLICIES - Continued

Income Taxes

The Conference is exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code.

Management evaluated the Conference's tax positions and concluded that the Conference had taken no uncertain tax positions that require adjustment to the consolidated financial statements to comply with the provisions of the Income Taxes Topic of the Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC").

Functional Allocation of Expenses

The costs of providing the various programs and other activities have been summarized and reported on a functional basis. Program expenses include costs directly associated with the program and other indirect costs determined to benefit the program. These costs have been allocated between program expenses and supporting services based on estimates made by management.

New Accounting Pronouncements

Effective January 1, 2019, the Conference adopted ASU 2014-09, *Revenue from Contracts with Customers (Topic 606)*. The new guidance requires the Conference to recognize revenue to depict the transfer of goods or services to members in an amount that reflects the consideration to which the Conference expects to be entitled in exchange for those goods or services. The new guidance also requires expanded disclosures related to the nature, amount, timing, and uncertainty of revenue and cash flows arising from contracts with members. The ASU has been applied retrospectively to all periods presented. The adoption of this new standard did not result in a material impact to the Conference's financial statements. There was no significant effect on the financial statements related to the adoption of this new standard which would require a cumulative effect adjustment to net assets at the date of adoption.

NORTH CAROLINA CONFERENCE,
SOUTHEASTERN JURISDICTION, OF
THE UNITED METHODIST CHURCH, INC. AND AFFILIATES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2019 AND 2018

A. NATURE OF ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES - Continued

In June 2018, the FASB issued ASU 2018-08, *Not-for-Profit Entities (Topic 958): Clarifying the Scope and Accounting Guidance for Contributions Received and Contributions Made*. This ASU provides additional guidance to be used to determine whether a contribution is conditional and when a transaction should be accounted for as a contribution versus an exchange. The Conference early adopted ASU 2018-08 as of January 1, 2019 and has applied the amendments of this standard on a modified prospective basis and elected to apply the standard only to agreements that were entered into after the effective date. This standard did not result in a material change to the financial statements or the timing of revenue recognition for the Conference's contributions and grants.

B. LIQUIDITY AND AVAILABILITY OF RESOURCES

The table below represents financial assets available for general expenditures within one year at December 31, 2019 and 2018:

	<u>2019</u>	<u>2018</u>
Financial assets at year-end:		
Cash and cash equivalents	\$ 6,202,894	\$ 10,077,344
Accounts receivable	2,471,808	3,414,601
Contributions receivable	-	2,996,389
Agency receivables	139,648	250,934
Investments	146,864,915	127,215,604
Mortgage loan receivable, net	<u>3,250,328</u>	<u>3,525,472</u>
Total financial assets	<u>158,929,593</u>	<u>147,480,344</u>
Less amounts not available to be used for general expenditures within one year:		
Mortgage principal payments from local Churches due in excess of one year	3,143,088	3,494,015
Designated, next year's approved budget	13,651,516	14,145,361
Designated, reserve projects	-	505,272
Designated, postretirement benefit budget	22,602,262	21,558,652
Designated, board restricted endowment	1,000,000	1,000,000
Amounts designated for specific programs	8,853,752	13,204,943
Permanent endowment	<u>256,271</u>	<u>250,557</u>
Total financial assets not available to be used within one year	<u>49,506,889</u>	<u>54,158,800</u>
Financial assets not available to be used within one year	<u>\$109,422,704</u>	<u>\$ 93,321,544</u>

NORTH CAROLINA CONFERENCE,
SOUTHEASTERN JURISDICTION, OF
THE UNITED METHODIST CHURCH, INC. AND AFFILIATES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2019 AND 2018

B. LIQUIDITY AND AVAILABILITY OF RESOURCES

The Conference receives significant support through restricted and unrestricted contributions and must maintain sufficient resources to meet responsibilities to its donors; therefore, these assets are limited to use for donor-restricted purposes. Additionally, the Conference maintains certain other board designated assets that are designated for specific purposes. These assets are limited to use and are not available for general expenditures within the next year. However, the board-designated amounts could be made available, if necessary. The Conference has a policy to structure its financial assets to be available as its general expenditures, liabilities, and other obligations come due.

C. CONTRIBUTIONS RECEIVABLE

Contributions receivable at December 31, 2018 consisted of the following:

Pledges due in 0 - 1 year	\$ 2,066,852
Pledges due in 1- 5 years, net of allowance of \$11,250 and \$11,250, respectively	1,319,339
Less: Discount for present value	<u>(389,802)</u>
Present value of contributions receivable	<u>\$ 2,996,389</u>

The Conference had no outstanding contributions receivable at December 31, 2019, as the majority of the balance from the prior year consisted of pledges made to ZOE Ministry which is no longer included in the consolidated financial statements.

NORTH CAROLINA CONFERENCE,
SOUTHEASTERN JURISDICTION, OF
THE UNITED METHODIST CHURCH, INC. AND AFFILIATES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2019 AND 2018

D. INVESTMENTS

Investments at December 31, 2019 and 2018, including the Conference's pooled funds held by the Foundation, Wespeth Benefits and Investments ("Wespeth") and The United Methodist Church Foundation are as follows:

	2019	2018
Certificates of deposit	\$ 1,407,985	\$ 1,391,039
Investment in pooled funds:		
United Methodist Foundation	125,225,318	107,012,581
Wespeth	17,700,398	16,816,813
The United Methodist Church Foundation	2,531,214	1,995,171
	\$146,864,915	\$127,215,604

The Conference's investments held with the Foundation represent approximately 59% of the total pooled investments at the Foundation at both December 31, 2019 and 2018. Investment and administrative fees charged by the Foundation to the Conference related to these investments was \$1,042,853 and \$1,000,137 for the years ended December 31, 2019 and 2018, respectively.

Market Risk

Market risk arises primarily from changes in the market value of financial instruments. Theoretically, the Conference's exposure is equal to the notional value of contracts purchased and unlimited on such contracts sold short.

Exposure to market risk is influenced by a number of factors, including the relationships between financial instruments, and the volatility and liquidity in the markets in which the financial instruments are traded. In many cases, the use of financial instruments serves to modify or offset market risk associated with other transactions and, accordingly, serves to decrease the Conference's overall exposure to market risk. The Conference attempts to control its exposure to market risk through various analytical monitoring techniques.

NORTH CAROLINA CONFERENCE,
SOUTHEASTERN JURISDICTION, OF
THE UNITED METHODIST CHURCH, INC. AND AFFILIATES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2019 AND 2018

D. INVESTMENTS - Continued

Concentrations of Credit Risk

The Conference's investment portfolio is impacted by various trading and brokerage activities in which counterparties primarily include broker-dealers, banks, and other financial institutions. In the event counterparties do not fulfill their obligations, the Conference may be exposed to risk. The risk of default depends on the creditworthiness of the counterparty or issuer of the instrument.

In the normal course of business, the Foundation and the other entities affiliated with The United Methodist Church enter into contracts and agreements with certain service providers, such as clearing and custody agents, trustees and administrators that contain a variety of representations and warranties and which provide general indemnifications and guarantees against specified potential losses in connection with their activities as an agent of, or providing services to, the investor. The maximum exposure under these agreements is unknown, as this may involve future claims that could be made against the investor and have not yet occurred. The Conference expects the risk of any future obligation under these arrangements to be remote and has not recorded any contingent liability in the consolidated financial statements for these indemnifications related to its investments held with the Foundation or other entities affiliated with The United Methodist Church.

Total investment return (loss) is comprised of the following for the years ended December 31, 2019 and 2018:

	<u>2019</u>	<u>2018</u>
Investment income (net of investment and administrative fees of \$1,042,853 and \$1,000,137 in 2019 and 2018, respectively)	\$ 1,884,469	\$ 1,610,123
Net realized gain on investments	5,011,127	4,536,547
Unrealized gain (loss) on investments	<u>16,166,447</u>	<u>(13,031,338)</u>
	<u>\$23,062,043</u>	<u>\$ (6,884,668)</u>

NORTH CAROLINA CONFERENCE,
SOUTHEASTERN JURISDICTION, OF
THE UNITED METHODIST CHURCH, INC. AND AFFILIATES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2019 AND 2018

E. PROPERTY AND EQUIPMENT

Property and equipment at December 31, 2019 and 2018, is comprised of the following:

	2019	2018
Land and land improvements	\$ 1,353,730	\$ 1,478,589
Buildings and building improvements	6,631,924	6,620,874
Furniture and equipment	<u>2,773,910</u>	<u>1,842,045</u>
	10,759,564	9,941,508
Less accumulated depreciation	<u>(3,683,118)</u>	<u>(3,290,089)</u>
	<u>\$ 7,076,446</u>	<u>\$ 6,651,419</u>

F. PENSION

In 1981, the Conference began participating in multiemployer pension and benefit plans provided by Wespath Benefits and Investments (“Wespath”). Six pension and benefit plans provided benefits for clergy and lay staff as follows for all service after December 31, 1981.

The Ministerial Pension Plan (“MPP”) provided retirement benefits for bishops of The United Methodist Church (“UMC”) elected by a Jurisdictional Conference, clergy members of an Annual Conference and local pastors of the Annual Conference under Episcopal appointment or those eligible for appointment to a charge through December 31, 2006. The MPP was a defined contribution plan and contributions were based on 12% of a participant’s plan compensation. The MPP was frozen as of December 31, 2006 (except for bishops for whom the plan was frozen as of August 31, 2008). The MPP was replaced by the Clergy Retirement Security Program (“CRSP”) beginning January 1, 2007. The CRSP has both defined benefit and defined contribution components. The defined benefit component of the CRSP is a multiemployer plan through Wespath. The annual contributions for the years ended December 31, 2019 and 2018 were \$2,546,721 and \$2,582,123, respectively, and represent the contributions for all plan participants including those from local churches, the Annual Conference and participating extension ministries. The defined benefit component of the plan is billed to local churches for participants at 10.4% of plan compensation. The defined contribution component of the CRSP is based on 3% of plan compensation and is billed to local churches for plan participants. Under the CRSP, the expense for 2019 and 2018 totaled \$232,986 and \$240,379 for the defined benefit and \$86,292 and \$89,031 for the defined contribution components, respectively, for plan participants for whom the salary-paying unit is the Annual Conference.

NORTH CAROLINA CONFERENCE,
SOUTHEASTERN JURISDICTION, OF
THE UNITED METHODIST CHURCH, INC. AND AFFILIATES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2019 AND 2018

F. PENSION - Continued

Supplements to the MPP and the CRSP also provide defined benefits in accordance with their predecessor plan, the Ministers Reserve Pension Fund (subsequently named Supplement One to the MPP and Supplement One to the CRSP). All plan participants, as of December 31, 1981, entitled to receive benefits through Supplement One to MPP or CRSP will receive upon retirement a monthly benefit, disability, surviving spouse and surviving children benefits. Benefits are based on years of service and an approved pension rate per year of service. The pension rate is based on a percent of the Conference average salary. Benefits are subject to certain reductions if the participant retires before reaching the age of 65. This plan is a multi-employer plan whose cost is shared by all plan sponsors within the plan (plan sponsors include annual conferences and general boards and agencies within the United Methodist Conference).

As a multi-employer plan, the portion of the liability attributed to the service years for plan participants within the North Carolina Conference is not recognized by the Conference. The Conference voluntarily agreed to fund the prior service liability for service years prior to 1982 and approves this payment annually by Annual Conference approval of the recommendation of the Conference Board of Pension.

The contributions to the plan for the prior service liability were \$3,760,257 and \$4,060,733 for 2019 and 2018, respectively, and are recognized in the Statements of Activities. The amount paid to fund the unfunded prior service liability is determined annually by Wespath. Funding for these prior service liability contributions for the Supplement One to the CRSP are raised through a special apportionment as part of a funding plan approved by the 1991 session of the North Carolina Annual Conference.

The Cumulative Pension and Benefit Fund (“CPBF”) provided retirement benefits for lay staff of the Annual Conference through December 31, 2006. The CPBF was a defined contribution plan and was based on 12% of plan compensation. The CPBF was replaced beginning January 1, 2007 for lay staff of the Annual Conference with the United Methodist Personal Investment Plan (“UMPIP”). Like the CPBF, the UMPIP is a defined contribution plan and is based on 12% of plan compensation. The expenses for the UMPIP for 2019 and 2018 were \$279,980 and \$291,780, respectively. Eligibility for the CPBF and UMPIP is defined as lay staff working 20 or more hours per week who have been employed for longer than one year.

NORTH CAROLINA CONFERENCE,
SOUTHEASTERN JURISDICTION, OF
THE UNITED METHODIST CHURCH, INC. AND AFFILIATES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2019 AND 2018

F. PENSION - Continued

The Comprehensive Protection Plan (“CPP”) provides death, disability and educational benefits for all individuals eligible to participate in the CRSP (clergy members actively serving under Episcopal appointment). The UM Life Options (“UM Life”) provides death and disability benefits for lay staff under active employment who participate in the UMPIP. The expense for these two plans was \$89,735 and \$94,327 for 2019 and 2018, respectively.

Beginning January 1, 2014, part-time clergy pension benefits were discontinued under the CRSP program and replaced with benefits through UMPIP. The UMPIP is a defined contribution plan and benefits for part-time clergy are based on 11.8% of plan compensation. The UMPIP expenses for part-time clergy were \$9,724 and \$10,681 for 2019 and 2018, respectively.

The Conference has an unfunded postretirement benefits plan that provides medical, dental, and life insurance benefits to current and future Conference retirees participating in the pension plans summarized in Note G. Benefits under the plan are based primarily on the participants’ official title while employed by the Conference, the participants’ age, and the participants’ length of service. The Conference uses December 31 as its measurement date for the plan.

G. POSTRETIREMENT BENEFITS OTHER THAN PENSION

The Conference had two postretirement benefit plans as of December 31, 2019 and 2018 - one for clergy (the “Clergy Plan”), and one for non-clergy (the “Lay Plan”). The accumulated postretirement benefit obligation for the two plans was as follows as of December 31, 2019 and 2018:

	<u>2019</u>	<u>2018</u>
Accumulated post retirement benefit obligation:		
Clergy Plan	\$(29,306,850)	\$(27,681,185)
Lay Plan	<u>(1,088,394)</u>	<u>(1,231,638)</u>
	<u>\$(30,395,244)</u>	<u>\$(28,912,823)</u>

The activity in the Lay Plan was not material in 2019 or 2018. Accordingly, the remaining disclosures relate entirely to the Clergy Plan.

NORTH CAROLINA CONFERENCE,
SOUTHEASTERN JURISDICTION, OF
THE UNITED METHODIST CHURCH, INC. AND AFFILIATES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2019 AND 2018

G. POSTRETIREMENT BENEFITS OTHER THAN PENSION - Continued

The following table provides a reconciliation of the changes in the postretirement benefit plan's accumulated postretirement benefit obligation related to clergy for the years ended December 31, 2019 and 2018:

	<u>2019</u>	<u>2018</u>
Reconciliation of accumulated postretirement benefit obligation - Clergy Plan:		
Accumulated postretirement benefit obligation, beginning	\$ 27,681,185	\$ 30,085,714
Service cost for benefits earned during the year	462,976	523,842
Interest cost on accumulated postretirement benefit obligation	1,222,103	1,131,825
Actuarial loss (gain)	2,706,981	(1,615,461)
Benefit payments	(2,931,017)	(2,618,055)
Plan participant contributions required (Retirees)	<u>164,622</u>	<u>173,320</u>
Accumulated postretirement benefit obligation, ending	<u>29,306,850</u>	<u>27,681,185</u>
Reconciliation of fair value of plan assets:		
Fair value of plan assets, beginning	-	-
Benefit payments	(2,931,017)	(2,618,055)
Employer contributions (Conference)	2,766,395	2,444,735
Plan participant contributions (Retirees)	<u>164,622</u>	<u>173,320</u>
Fair value of plan assets, ending	<u>-</u>	<u>-</u>
Unfunded status, accumulated postretirement benefit obligation in excess of plan assets	<u>\$(29,306,850)</u>	<u>\$(27,681,185)</u>

During 2019, the Conference's accumulated postretirement benefit obligation related to the Clergy Plan increased approximately \$1.6 million. This change resulted primarily from an actuarial loss and a decrease in the discount rate from 4.54% to 3.31%

NORTH CAROLINA CONFERENCE,
SOUTHEASTERN JURISDICTION, OF
THE UNITED METHODIST CHURCH, INC. AND AFFILIATES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2019 AND 2018

G. POSTRETIREMENT BENEFITS OTHER THAN PENSION - Continued

The components of the net periodic postretirement cost charged to benefit and welfare expense for the years ended December 31, 2019 and 2018, consisted of the following:

	<u>2019</u>	<u>2018</u>
Service cost for benefits earned during the year	\$ 462,976	\$ 523,842
Interest cost on projected benefit obligation	1,222,103	1,131,825
Amortization of prior service credit	(4,124,346)	(4,997,334)
Amortization of net loss	<u>394,115</u>	<u>576,687</u>
	<u>\$(2,045,152)</u>	<u>\$(2,764,980)</u>

Amounts recognized in postretirement changes other than net periodic postretirement cost:

	<u>2019</u>	<u>2018</u>
Amortization of prior service credit	\$ 4,124,346	\$ 4,997,334
Actuarial loss (gain)	2,706,981	(1,615,461)
Amortization of net loss	<u>(394,115)</u>	<u>(576,687)</u>
	<u>\$ 6,437,212</u>	<u>\$ 2,805,186</u>

Amounts recognized in net assets without donor restrictions, but not yet recognized as components of net periodic postretirement cost at December 31, 2019 and 2018:

	<u>2019</u>	<u>2018</u>
Unrecognized actuarial losses	\$ 9,294,072	\$ 6,981,206
Unamortized prior service credit	<u>(6,209,810)</u>	<u>(10,334,156)</u>
	<u>\$ 3,084,262</u>	<u>\$(3,352,950)</u>

NORTH CAROLINA CONFERENCE,
SOUTHEASTERN JURISDICTION, OF
THE UNITED METHODIST CHURCH, INC. AND AFFILIATES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2019 AND 2018

G. POSTRETIREMENT BENEFITS OTHER THAN PENSION - Continued

Amounts in net assets without donor restrictions expected to be recognized as components of net periodic postretirement cost for the upcoming year as of December 31, 2019 and 2018:

	<u>2019</u>	<u>2018</u>
Amortization of unrecognized prior service credit	\$(4,124,346)	\$(4,124,346)
Expected amortization of net loss	<u>592,494</u>	<u>394,115</u>
	<u>\$(3,531,852)</u>	<u>\$(3,730,231)</u>

Weighted-average assumptions used to determine benefit obligations and net periodic postretirement benefit cost for years ended December 31 are:

	<u>2019</u>	<u>2018</u>
Discount rate	3.31%	4.54%
Expected return on plan assets (unfunded)	N/A	N/A

The health care trend rate was assumed to be 7.32% for 2019. For 2020, the trend of health care costs used to determine the benefit obligation and net periodic postretirement benefit cost is an annual trend rate of 6.92% with such rates remaining at 4.50%.

Assumed health care rates have a significant effect on the amounts reported for the plan. A one percent change in assumed health care costs trend rates would have the following effect:

	<u>1% Increase</u>	<u>1% Decrease</u>
Effect on total service and interest cost components for fiscal year ending 12/31/19	\$ 265,762	\$(205,983)
Effect on the accumulated postretirement benefit obligation for 12/31/19	3,723,330	(3,053,482)

NORTH CAROLINA CONFERENCE,
SOUTHEASTERN JURISDICTION, OF
THE UNITED METHODIST CHURCH, INC. AND AFFILIATES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2019 AND 2018

G. POSTRETIREMENT BENEFITS OTHER THAN PENSION - Continued

The Conference is on an unfunded basis regarding the plan; therefore, there are no assets in the plan. However, \$22,602,262 and \$21,558,652 has been internally designated, which is held by a related party, for purposes of future obligations related to the plan at both December 31, 2019 and 2018, respectively.

The benefits expected to be paid by the Conference contributions of the same amount in each of the next five fiscal years and in the aggregate for the four fiscal years thereafter are as follows:

<u>Year</u>	<u>Amount</u>
2020	\$ 1,688,309
2021	1,675,404
2022	1,671,254
2023	1,659,778
2024	1,653,917
2025 - 2029	<u>8,160,979</u>
	<u>\$16,509,641</u>

H. RELATED PARTY TRANSACTIONS

United Methodist Foundation, Inc. and Affiliate (the “Foundation”) was established primarily as an investment pool available for organizations, churches and agencies related to the North Carolina Conference, Southeastern Jurisdiction, of The United Methodist Church, Inc. The Conference and the Foundation share certain common board representation.

The Foundation entered into an operating lease with the Conference for office space in the Conference’s building. The lease is set to expire in July 2020. For the years ended December 31, 2019 and 2018, the Conference recognized rental income related to this lease of \$54,538 and \$51,941, respectively, in other revenues in the consolidated statements of activities.

Certain accounting functions are performed by the Conference on behalf of the Foundation. The revenue associated with these accounting functions is not material, and as a result, is not recognized in the accompanying consolidated financial statements. As discussed in Note D, the Conference has significant amounts of investments held with the Foundation and other entities affiliated with The United Methodist Church.

NORTH CAROLINA CONFERENCE,
SOUTHEASTERN JURISDICTION, OF
THE UNITED METHODIST CHURCH, INC. AND AFFILIATES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2019 AND 2018

H. NET ASSETS WITH DONOR RESTRICTIONS

Net assets with donor restrictions at December 31, 2019 and 2018 have been restricted by the donor for the following purposes.

	<u>2019</u>	<u>2018</u>
Amounts designated for specific programs:		
Disaster relief and preparedness	\$ 906,459	\$ 351,832
District Missions	1,201,918	
Establishment of new churches	549,142	
ZOE Ministry	-	5,091,847
Other	<u>6,196,233</u>	<u>7,760,487</u>
	<u>8,853,752</u>	<u>13,204,166</u>
Permanent endowment:		
Mission Endowment Fund	<u>256,271</u>	<u>250,557</u>
	<u>\$9,110,023</u>	<u>\$13,454,723</u>

I. NET ASSETS RELEASED FROM RESTRICTIONS

During the years ended December 31, 2019 and 2018, net assets were released from donor restrictions by incurring expenses satisfying the restricted purposes or by occurrence of other events specified by the donors as follows:

	<u>2019</u>	<u>2018</u>
Disaster relief and preparedness	\$6,167,836	\$2,602,485
Establishment of new churches	92,885	1,486,415
Duke Endowment retiree benefit supplement	810,449	801,579
ZOE Ministry	-	3,066,790
Other	<u>1,432,581</u>	<u>1,463,351</u>
	<u>\$8,503,751</u>	<u>\$9,420,620</u>

NORTH CAROLINA CONFERENCE,
SOUTHEASTERN JURISDICTION, OF
THE UNITED METHODIST CHURCH, INC. AND AFFILIATES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2019 AND 2018

J. FAIR VALUE MEASUREMENTS

Guidance provided by the FASB defines fair value as 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. The Conference utilizes valuation techniques to maximize the use of observable inputs and minimize the use of unobservable inputs. Assets and liabilities recorded at fair value are categorized within the fair value hierarchy based upon the level of judgment associated with the inputs used to measure their value. The fair value hierarchy gives the highest priority to quoted prices in active markets for identical assets or liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3). Inputs are broadly defined as assumptions market participants would use in pricing an asset or liability. The three levels of the fair value hierarchy are described below:

Level 1 - Unadjusted quoted prices in active markets for identical assets or liabilities that the reporting entity has the ability to access at the measurement date. Listed equities would be an example of the type of investments included in Level 1. As required by the guidance provided by the FASB, the Conference does not adjust the quoted price for these investments, even in situations where the Conference holds a large position and a sale could reasonably impact the quoted price.

Level 2 - Inputs other than quoted prices within Level 1 that are observable for the asset or liability, either directly or indirectly; and fair value is determined through the use of models or other valuation methodologies. Investments within this category would generally include corporate bonds and loans, less liquid and restricted equity securities and certain over-the-counter derivatives. A significant adjustment to a Level 2 input could result in the Level 2 measurement becoming a Level 3 measurement.

Level 3 - Inputs are unobservable for the asset or liability and include situations where there is little, if any, market activity for the asset or liability. The inputs into the determination of fair value are based upon the best information in the circumstances and may require significant management judgment or estimation. Investments within this category would generally include equity and debt positions in private companies and general and limited partnership interests in corporate private equity and real estate funds, debt funds, certain funds of hedge funds and distressed debt. The Conference does not have any Level 3 financial instruments as of December 31, 2019 or 2018.

NORTH CAROLINA CONFERENCE,
SOUTHEASTERN JURISDICTION, OF
THE UNITED METHODIST CHURCH, INC. AND AFFILIATES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2019 AND 2018

J. FAIR VALUE MEASUREMENTS - Continued

The tables below present the balances of financial assets measured at fair value on a recurring basis by level at December 31, 2019 and 2018.

	December 31, 2019			
	<u>Total</u>	<u>Quoted Prices in Active Markets for identical Assets (Level 1)</u>	<u>Significant Other Observable inputs (Level 2)</u>	<u>Significant Unobservable inputs (Level 3)</u>
Investments in pooled funds:				
United Methodist Foundation	\$125,225,318	\$ -	\$125,225,318	\$ -
Wespath	17,700,398	-	17,700,398	-
The United Methodist Church Foundation	<u>2,531,214</u>	<u>-</u>	<u>2,531,214</u>	<u>-</u>
Total financial assets	<u>\$145,456,930</u>	<u>\$ -</u>	<u>\$145,456,930</u>	<u>\$ -</u>

	December 31, 2018			
	<u>Total</u>	<u>Quoted Prices in Active Markets for identical Assets (Level 1)</u>	<u>Significant Other Observable inputs (Level 2)</u>	<u>Significant Unobservable inputs (Level 3)</u>
Investments in pooled funds:				
United Methodist Foundation	\$107,012,581	\$ -	\$107,012,581	\$ -
Wespath	16,816,813	-	16,816,813	-
The United Methodist Church Foundation	<u>1,995,171</u>	<u>-</u>	<u>1,995,171</u>	<u>-</u>
Total financial assets	<u>\$125,824,565</u>	<u>\$ -</u>	<u>\$125,824,565</u>	<u>\$ -</u>

NORTH CAROLINA CONFERENCE,
SOUTHEASTERN JURISDICTION, OF
THE UNITED METHODIST CHURCH, INC. AND AFFILIATES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2019 AND 2018

J. FAIR VALUE MEASUREMENTS- Continued

The following presents further information regarding the composition of the Conference's investments at December 31, 2019 and 2018:

<u>Investments at December 31, 2019</u>	<u>Fair Value</u>	<u>Frequency (if Unfunded Commitment</u>	<u>Notice Currently Eligible)</u>	<u>Period (in Days)</u>
United Methodist Foundation (a)	\$125,225,318	\$ -	Quarterly	0
Wespath (b)	17,700,398	-	Monthly	15
The United Methodist Church Foundation (c)	2,531,214	-	Monthly	15

<u>Investments at December 31, 2018</u>	<u>Fair Value</u>	<u>Unfunded Commitment</u>	<u>Currently Eligible)</u>	<u>Period (in Days)</u>
United Methodist Foundation (a)	\$107,012,581	\$ -	Quarterly	0
Wespath (b)	16,816,863	-	Monthly	15
The United Methodist Church Foundation (c)	1,995,171	-	Monthly	15

(a) The Foundation provides a management-investment pool for long-term and permanent funds of the Conference and local churches, institutions, and ministries of the Church. The Foundation provides two investment alternatives for its unit holders. One option is the Balanced Fund, which utilizes an investment allocation of 65% equities and 35% fixed income securities. The second option is a Fixed Income Fund, which utilizes an investment allocation strategy of 95% fixed income securities and 5% equities. Equity instruments held by the Foundation include large cap domestic equities, mid/small cap domestic equities, and international equities. Fixed income instruments held by the Foundation include short-term, intermediate-term, and high-yield domestic fixed income assets. The Foundation invests all funds according to the Social Principles of the United Methodist Church as described in The Book of Discipline and the Statement of Investment Guidelines published by the denomination's General Council on Finance and Administration. The fair values of investments held by the Foundation have been estimated using the net asset value per share of the investments.

NORTH CAROLINA CONFERENCE,
SOUTHEASTERN JURISDICTION, OF
THE UNITED METHODIST CHURCH, INC. AND AFFILIATES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2019 AND 2018

J. FAIR VALUE MEASUREMENTS - Continued

- (b) Wespath selects and manages investments in a manner that is consistent with a methodology termed “socially responsible investing,” an investment strategy dedicated to attaining market rates of return, while upholding the social values of the organization administering the investment program. The Conference holds investments in five different types of funds managed by Wespath. These funds enable the Conference to earn current income while preserving capital by investing in a broad mix of equity and fixed income securities. The fair values of investments in this category have been estimated using the net asset value per share of the investments.
- (c) The United Methodist Church Foundation includes investments in small cap equities, large cap equities, and international equities. The United Methodist Church Foundation selects and manages investments in a manner that is consistent with a methodology termed “socially responsible investing,” an investment strategy dedicated to attaining market rates of return, while upholding the social values of the organization administering the investment program. The fair values of investments in this category have been estimated using the net asset value per share of the investments, an investment strategy dedicated to attaining market rates of return, while upholding the social values of the organization administering the investment program. The fair values of investments in this category have been estimated using the net asset value per share of the investments.

K. SUBSEQUENT EVENTS

Management has evaluated subsequent events through June 5, 2020, the date the financial statements were available for issuance, and has determined that there was one subsequent event requiring disclosure.

On January 30, 2020, the World Health Organization (“WHO”) announced a global health emergency because of a new strain of coronavirus (the “COVID-19 outbreak”). In March 2020, the WHO classified the COVID-19 outbreak as a pandemic, based on the rapid increase in exposure globally.

The full impact of the pandemic continues to evolve as of the date of this report. The Conference’s operations are dependent on contributions from individuals and churches. Contributions from individuals and churches have decreased since the spread of the outbreak due to travel restrictions put in place by governments to curtail the spread of the coronavirus as well as due to developments such as social distancing and shelter-in-place directives.

NORTH CAROLINA CONFERENCE,
SOUTHEASTERN JURISDICTION, OF
THE UNITED METHODIST CHURCH, INC. AND AFFILIATES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2019 AND 2018

K. SUBSEQUENT EVENTS - Continued

In addition, this pandemic has adversely affected global economic activity and contributed to deterioration and instability in financial markets. As of the date of this report, the Conference's investment portfolio has incurred a decline since December 31, 2019. Because the values of the Conference's investments have and will fluctuate in response to changing market conditions, the amount of losses that will be recognized in subsequent periods, if any, and related impact on the Conference's liquidity cannot be determined at this time. The pandemic may have a continued material adverse impact on economic and market conditions, triggering a period of economic slowdown. As such, this may hinder the Conference's ability to advance their mission and has led the Conference to seek financing through the Paycheck Protection Program ("PPP"). On May 5, 2020, the Conference was approved for the PPP loan. On May 6, 2020, the Conference received funding for the PPP loan in the amount of approximately \$1,862,000, which is subject to forgiveness if it is utilized for expenditures such as certain payroll, rent, and utility costs. It is the Conference's intent to utilize the loan proceeds for purposes that qualify the loan for forgiveness and management expects the loan to ultimately be forgiven.

While expected to be temporary, the Conference cannot estimate the length or gravity of the impact of the COVID-19 outbreak at this time. If the pandemic continues, it may have an adverse effect on the Conference's results of future operations, financial position, and liquidity in fiscal year 2020.

On March 31, 2020, the Conference created a COVID Local Church Assistance Fund ("Assistance Fund") to provide assistance to local churches impacted financially by the pandemic. The relief effort consisted of the Conference moving 3 months of local church pension contributions (approximately \$1M) and 3 months of church portion health premiums (approximately \$1.3M) to the Assistance Fund in order to aid churches financially. Before receiving funding, the Conference recommends that local churches first apply for funding through the Coronavirus Aid, Relief and Economic Security (CARES) Act and PPP loan. If approved, churches would be required to exhaust federal funding before becoming eligible to receive funding from the Assistance Fund.

SUPPLEMENTARY INFORMATION

NORTH CAROLINA CONFERENCE,
SOUTHEASTERN JURISDICTION, OF
THE UNITED METHODIST CHURCH, INC. AND AFFILIATES
CONSOLIDATING SCHEDULE OF FINANCIAL POSITION
DECEMBER 31, 2019

	Conference	District Superintendent Offices	Board of Missions, Inc.	Board of Trustees, Inc.	Total
ASSETS					
Cash and cash equivalents	\$ 2,540,306	\$ 730,565	\$ 1,600,846	\$ 1,331,177	\$ 6,202,894
Accounts receivable	2,469,240	1,616	-	952	2,471,808
Investments	134,256,493	3,352,526	164,264	9,091,632	146,864,915
Mortgage loans receivable, less allowance for doubtful loans of \$329,092	-	-	2,702,177	548,151	3,250,328
Agency receivables	139,648	-	-	-	139,648
Other assets	103,334	3,688	-	209,696	316,718
Property and equipment, net	106,429	3,647	496,943	6,469,427	7,076,446
Total assets	\$ 139,615,450	\$ 4,092,042	\$ 4,964,230	\$ 17,651,035	\$ 166,322,757
LIABILITIES AND NET ASSETS					
Liabilities:					
Accounts payable and accrued expenses	\$ 4,192,808	\$ 27,121	\$ 195	\$ 104,359	\$ 4,324,483
Accumulated postretirement benefit obligation	30,395,244	-	-	-	30,395,244
Total liabilities	34,588,052	27,121	195	104,359	34,719,727
Net Assets:					
Net assets without donor restrictions:					
Designated, next year's approved budget	13,651,516	-	-	-	13,651,516
Designated, reserve projects	-	-	-	-	-
Designated, postretirement benefit plan	22,602,262	-	-	-	22,602,262
Designated, board restricted endowment	1,000,000	-	-	-	1,000,000
Undesignated	61,026,261	1,702,257	4,964,035	17,546,676	85,239,229
Net assets with donor restrictions	6,747,359	2,362,664	-	-	9,110,023
Total net assets	105,027,398	4,064,921	4,964,035	17,546,676	131,603,030
Total liabilities and net assets	\$ 139,615,450	\$ 4,092,042	\$ 4,964,230	\$ 17,651,035	\$ 166,322,757

See independent auditor's report.

NORTH CAROLINA CONFERENCE,
SOUTHEASTERN JURISDICTION OF
OF THE UNITED METHODIST CHURCH, INC. AND AFFILIATES
SCHEDULE OF FINANCIAL POSITION DETAIL,
SUMMARY OF INVESTMENTS, CONFERENCE
DECEMBER 31, 2019

	Fair Value
Academy for Leadership Excellence: Investment in United Methodist Foundation, Inc.	\$ 20,663
Archives & History Investment in United Methodist Foundation, Inc.	5,191
Blackburn Scholarship Fund: Investment in United Methodist Foundation, Inc.	262,445
Central Funds: Investment in United Methodist Foundation, Inc. Certificates of deposit Investment in United Methodist Development Fund	29,838,948 721,666 580,399 31,141,013
Conference Publications Investment in United Methodist Foundation, Inc.	396,363
Conference Board of Pensions: Investment in United Methodist Foundation, Inc. General Board of Pension and Health Benefit Accounts	33,522 17,700,513 17,734,035
Congregational Development Fund, Inc. Investment in United Methodist Foundation, Inc.	1,396,615
Crossroads Retreat Investment in United Methodist Foundation, Inc.	30,631
Howard M. McLamb Ministerial Scholarship Fund Investment in United Methodist Foundation, Inc.	103,787
Insurance Investment in United Methodist Foundation, Inc.	9,995,028
John Wesley Endowment/New Church Development Investment in United Methodist Foundation, Inc.	416,998
Lay Retiree Health Liability Investment in United Methodist Foundation, Inc.	2,206,398
Lay Employee Disability Fund Investment in United Methodist Foundation, Inc.	378,765
Medical Grant Fund Investment in United Methodist Foundation, Inc.	590,319
Ministers' Transition Fund Investment in United Methodist Foundation, Inc.	24,919,384
Native American Awareness Investment in United Methodist Foundation, Inc.	96,213
NC Conference Campus Ministry Investment in United Methodist Foundation, Inc.	-
NC Conference Historical Society Investment in United Methodist Development Fund, Inc. Investment in United Methodist Foundation, Inc.	1,008 2,708 3,716
Partners in Caring Investment in United Methodist Foundation, Inc.	145,211
Retiree Welfare Benefits Liability Investment in United Methodist Foundation, Inc. Investment in National United Methodist Foundation	38,948,580 2,531,214 41,479,794
Seminary Debt Repayment Plan Investment in United Methodist Foundation, Inc.	1,152,264
Southeastern Jurisdiction Association - Communicators, Investment in United Methodist Foundation, Inc.	7,607
Ten Dollar Club Fund Investment in United Methodist Foundation, Inc.	296,719
UMC Mission Endowment Investment in United Methodist Foundation, Inc.	1,477,334
	\$ 134,256,493

See independent auditor's report.

NORTH CAROLINA CONFERENCE,
SOUTHEASTERN JURISDICTION OF
OF THE UNITED METHODIST CHURCH, INC. AND AFFILIATES
SCHEDULE OF CENTRAL FUND ACTIVITIES
YEAR ENDED DECEMBER 31, 2019

Changes attributed to contingency reserve:

Revenues:

Interest on investments	\$ 65,640
Interest on Methodist Foundation	456,217
Net reclaim from prior year	804,236
Post audit receipts	26,612
Other receipts	2,752
	1,355,457

Expenses:

Current year budget supplements	489,428
Current year non-budget supplements	33,638
Subsequent year budget supplements	876,049
Subsequent year non-budget supplements	50,000
Interest paid	50,687
Audit adjustments (reclaimed)	22,607
	1,522,409

Decrease in net assets	(166,952)
------------------------	-----------

Change in accumulated realized and unrealized losses	3,517,870
Net assets at beginning of year, including losses	4,977,784
Net assets at end of year, including losses	\$ 8,328,702

See independent auditor's report.