

GREATER NEW JERSEY ANNUAL CONFERENCE
OF THE UNITED METHODIST CHURCH

UNCONSOLIDATED FINANCIAL STATEMENTS

For the Year Ended
December 31, 2017
* * *

GREATER NEW JERSEY ANNUAL CONFERENCE
OF THE UNITED METHODIST CHURCH

TABLE OF CONTENTS

INDEPENDENT AUDITOR’S REPORT	1.
FINANCIAL STATEMENTS:	
Unconsolidated Statement of Financial Position	3.
Unconsolidated Statement of Activities	4.
Unconsolidated Statement of Cash Flows	5.
Notes to the Unconsolidated Financial Statements	6.

To the Council on Finance and Administration
Greater New Jersey Annual Conference
of the United Methodist Church
Neptune, New Jersey 07753

INDEPENDENT AUDITOR'S REPORT

We have audited the accompanying unconsolidated financial statements of the Greater New Jersey Annual Conference of the United Methodist Church (the Conference), a nonprofit organization, which comprise the unconsolidated statement of financial position as of December 31, 2017, and the related unconsolidated statements of activities and cash flows for the year then ended, and the related notes to the unconsolidated financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these unconsolidated financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the unconsolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the unconsolidated 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 unconsolidated 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 unconsolidated financial statements.

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

Opinion

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

Report on Summarized Comparative Information

We have previously audited the Conference's 2016 unconsolidated financial statements, and our report dated May 30, 2017, expressed an unmodified opinion on those unconsolidated financial statements. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2016, is consistent, in all material respects, with the audited unconsolidated financial statements from which it has been derived.

Lambides Arnold Moulthrop LLP

July 26, 2018

GREATER NEW JERSEY ANNUAL CONFERENCE
OF THE UNITED METHODIST CHURCH

UNCONSOLIDATED STATEMENT OF FINANCIAL POSITION
DECEMBER 31, 2017
WITH SUMMARIZED FINANCIAL INFORMATION
AS OF DECEMBER 31, 2016

	<u>2017</u>	<u>2016</u>
ASSETS		
Cash and cash equivalents	\$ 1,306,025	\$ 1,579,541
Investments (Note 3)	20,582,061	19,412,542
Accounts receivable	3,052,648	2,598,843
Pledges receivable	-	447,099
Loans receivable, net of allowance of \$176,749 - 2017 and \$177,229 - 2016	1,380,178	1,049,950
Interest receivable	2,010	2,010
Due from Bishop's Office (Note 18)	79,660	45,782
Prepaid expenses	238,966	287,313
Property and equipment (Note 5)	8,527,928	9,430,524
Beneficial interest in perpetual trust (Note 19)	389,543	354,288
Total assets	<u>\$ 35,559,019</u>	<u>\$ 35,207,892</u>
LIABILITIES AND NET ASSETS		
Liabilities:		
Accounts payable and accrued expenses	\$ 3,503,139	\$ 1,975,091
Due to A Future with Hope (Note 18)	146,139	209,017
Security deposit	2,250	2,750
Post-retirement employee benefit obligation (Note 12)	65,699,205	58,018,509
Total liabilities	<u>69,350,733</u>	<u>60,205,367</u>
Net Assets:		
Unrestricted Net Assets	(35,535,110)	(27,910,341)
Temporarily restricted (Note 7)	1,017,775	2,227,000
Permanently restricted (Note 8)	725,621	685,866
Total net assets	<u>(33,791,714)</u>	<u>(24,997,475)</u>
Total liabilities and net assets	<u>\$ 35,559,019</u>	<u>\$ 35,207,892</u>

See notes to the unconsolidated financial statements.

Exhibit A

**GREATER NEW JERSEY ANNUAL CONFERENCE
OF THE UNITED METHODIST CHURCH**

**UNCONSOLIDATED STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2017
WITH SUMMARIZED FINANCIAL INFORMATION
FOR THE YEAR ENDED DECEMBER 31, 2016**

	<u>UNRESTRICTED</u>	<u>TEMPORARILY RESTRICTED</u>	<u>PERMANENTLY RESTRICTED</u>	<u>TOTAL</u>	
				<u>2017</u>	<u>2016</u>
Revenues, Gains, and Other Support:					
Disciplinary obligations	\$ 4,586,800			\$ 4,586,800	\$ 4,602,980
World service benevolences	3,179,028			3,179,028	3,138,617
Other apportioned	650,525			650,525	636,351
Non apportioned	186,013	\$ 203,768		389,781	548,751
Program revenue	415,425			415,425	501,677
Change in value of perpetual trusts			\$ 35,255	35,255	3,754
Investment income (Note 3)	3,252,618	53,017		3,305,635	1,112,301
Other revenue	1,330,996	513	4,500	1,336,009	4,134,123
Gain/loss on sale of real estate	1,716,004			1,716,004	(217,207)
Net assets released from restriction (Note 6)	<u>1,466,523</u>	<u>(1,466,523)</u>		<u>-</u>	<u>-</u>
Total revenues, gains, and other support	<u>16,783,932</u>	<u>(1,209,225)</u>	<u>39,755</u>	<u>15,614,462</u>	<u>14,461,347</u>
Expenses and Losses:					
Clergy support	2,300,683			2,300,683	2,281,281
Administrative expense	3,634,340			3,634,340	4,360,298
World service programs	3,303,569			3,303,569	3,206,236
Other apportioned funds	671,794			671,794	642,702
Other disbursements	3,766,175			3,766,175	3,301,919
Unreimbursed pension & health health insurance (Note 14)	2,653,832			2,653,832	2,219,784
Depreciation	<u>397,612</u>			<u>397,612</u>	<u>277,907</u>
Total expenses and losses	<u>16,728,005</u>	<u>-</u>	<u>-</u>	<u>16,728,005</u>	<u>16,290,127</u>
Change in net assets before post- retirement benefit obligation gain (loss)	<u>55,927</u>	<u>(1,209,225)</u>	<u>39,755</u>	<u>(1,113,543)</u>	<u>(1,828,780)</u>
Post-retirement benefit obligation gain (Note 12)	<u>(7,680,696)</u>			<u>(7,680,696)</u>	<u>(8,463,398)</u>
Change in Net Assets	<u>(7,624,769)</u>	<u>(1,209,225)</u>	<u>39,755</u>	<u>(8,794,239)</u>	<u>(10,292,178)</u>
Net Assets at Beginning of Year	<u>(27,910,341)</u>	<u>2,227,000</u>	<u>685,866</u>	<u>(24,997,475)</u>	<u>(14,705,297)</u>
Net Assets at End of Year	<u><u>\$(35,535,110)</u></u>	<u><u>\$1,017,775</u></u>	<u><u>\$ 725,621</u></u>	<u><u>\$(33,791,714)</u></u>	<u><u>\$(24,997,475)</u></u>

See notes to the unconsolidated financial statements.

Exhibit B

GREATER NEW JERSEY ANNUAL CONFERENCE
OF THE UNITED METHODIST CHURCH

UNCONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2017
WITH SUMMARIZED FINANCIAL INFORMATION
FOR THE YEAR ENDED DECEMBER 31, 2016

	<u>2017</u>	<u>2016</u>
Cash Flows from Operating Activities:		
Change in net assets	\$ (8,794,239)	\$ (10,292,178)
Adjustments to reconcile change in net assets to net cash used by operating activities:		
Depreciation expense	397,612	277,907
Realized gain on investments	(1,047,261)	(1,091,798)
Unrealized (gain) loss on investments	(2,307,585)	70,987
Change in value of perpetual trusts	(35,255)	(3,754)
(Gain) loss on disposal of fixed assets	(1,716,004)	217,207
Bad debt expense (Recovery of prior bad debt expense)	257,164	226,647
(Increase) decrease in:		
Accounts receivable	(453,805)	363,869
Allowance for uncollectible loans	5,133	14,000
Pledges receivable	189,935	456,755
Interest receivable	-	18,374
Due from Bishop's office	(33,878)	(15,655)
Prepaid expenses	48,347	553,610
Increase (decrease) in:		
Accounts payable and accrued expenses	1,528,048	(124,917)
Due to A Future with Hope	(62,878)	(18,953)
Security deposit	(500)	(2,250)
Post-retirement benefits liability	7,680,696	8,463,398
Net cash used by operating activities	<u>(4,344,470)</u>	<u>(886,751)</u>
Cash Flows from Investing Activities:		
Increase in loans receivable	175,381	340,322
Repayments of loans receivable	(510,742)	(203,782)
Purchase of investments	(7,525,476)	(28,138,775)
Proceeds from the sale of investments	9,710,803	30,545,031
Proceeds from sale of fixed assets	2,346,243	812,365
Purchase of fixed assets	(125,255)	(1,790,643)
Net cash (used) provided by investing activities	<u>4,070,954</u>	<u>1,564,518</u>
Net Increase (Decrease) in Cash and Cash Equivalents	(273,516)	677,767
Cash and Cash Equivalents at Beginning of Year	<u>1,579,541</u>	<u>901,774</u>
Cash and Cash Equivalents at End of Year	<u>\$ 1,306,025</u>	<u>\$ 1,579,541</u>
Supplemental disclosure:		
Non-cash investing activities		
Transfer of shares from Centenary Fund	<u>\$ 608,655</u>	<u>\$ -</u>

See notes to the unconsolidated financial statements.

Exhibit C

GREATER NEW JERSEY ANNUAL CONFERENCE
OF THE UNITED METHODIST CHURCH

NOTES TO THE UNCONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2017

1. Organization:

Greater New Jersey Annual Conference of the United Methodist Church (the Conference) is an integral part of the General Conference of the United Methodist Church. Each member church in the Greater New Jersey Annual Conference supports the operating budget and, in addition, makes contributions or grants to the Conference's and General Conference's missions and programs. Investment revenue and program revenue also support the activities of the Conference.

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

2. Summary of Significant Accounting Policies:

(a) *Basis of Accounting*

The financial statements of the Conference have been prepared on the accrual basis of accounting and accordingly reflect all significant receivables, payables and other liabilities.

(b) *Cash and Cash Equivalents*

For purposes of the Statement of Cash Flows, the Conference considers all unrestricted highly liquid investments with an initial maturity of three months or less to be cash equivalents.

(c) *Investments*

Investments in equity securities with readily determinable fair values and all investments in debt securities are reported at fair values based on quoted prices in active markets (national security exchanges) for identical assets, with gains and losses included in the statement of activities. Donated investments are reflected as contributions at their fair values at date of receipt.

(d) *Accounts Receivable*

Accounts receivable are stated at the amount management expects to collect from outstanding balances. Management provides for probable uncollectible amounts through a provision for bad debt expense and an adjustment to a valuation allowance based on its assessment of the current status of individual accounts. Balances that are still outstanding after management has used reasonable collection efforts are written off through a charge to the valuation allowance and a credit to accounts receivable.

(e) *Firm Pledges*

Firm pledges are recognized as income in the year for which the pledge is made. Pledges that are expected to be received within one year are recorded at net realizable value. Pledges that are expected to be collected in future years are recorded at the present value of their estimated future cash flows. The discounts on those amounts are computed using risk-free interest rates applicable to the year in which the pledges are received. Amortization of the discount is included in contribution

Continued

GREATER NEW JERSEY ANNUAL CONFERENCE
OF THE UNITED METHODIST CHURCH

NOTES TO THE UNCONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2017

2. Summary of Significant Accounting Policies: (continued)

(e) *Firm Pledges* (continued)

revenue. The Conference uses the allowance method to determine uncollectible receivables. An allowance for uncollectible pledges is estimated based upon management's judgment and includes factors such as prior collection history.

(f) *Land, Buildings and Equipment*

Depreciable assets over \$5,000 are recorded at cost at date of acquisition or fair value at date of donation in the case of gifts. Depreciation is recorded on a straight-line basis over the estimated useful lives as follows:

Buildings	25 - 40 years
Equipment, furniture and fixtures	4 - 10 years

Property and equipment are reviewed each year for impairment or whenever events or changes in business circumstances indicate carrying value of the assets may not be recoverable. Impairment losses are recognized if expected future cash flows from the assets are less than their carrying values. No impairment losses were recognized during the year ended December 31, 2017.

(g) *Post-retirement Benefits*

The Conference has adopted FASB ASC 715, Compensation – Retirement Benefits which requires that the funded status of defined benefit pensions and other postretirement benefit plans be fully recognized in the statement of financial position.

(h) *Net Assets*

The net assets of the Conference and changes therein are classified and reported as follows:

Unrestricted net assets include all resources which are not subject to donor imposed restrictions of a more specific nature than those which only obligate the Conference to utilize funds in furtherance of its mission.

Temporarily restricted net assets carry specific, donor-imposed restrictions on the expenditure or other use of contributed funds. Temporary restrictions may expire either because certain actions are taken by the Conference which fulfill the restrictions or because of the passage of time. Expirations of temporary restrictions on net assets (i.e., the donor-stipulated purpose has been fulfilled and/or the stipulated time period has elapsed) are reported as reclassifications between the applicable classes of net assets.

Continued

GREATER NEW JERSEY ANNUAL CONFERENCE
OF THE UNITED METHODIST CHURCH

NOTES TO THE UNCONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2017

2. **Summary of Significant Accounting Policies:** (continued)

(h) *Net Assets* (continued)

Permanently restricted net assets are those that are subject to donor-imposed restrictions which will never lapse, thus requiring that the funds be permanently retained. Generally, the donors of these funds permit the organization to use all or part of the income earned on related investments, and the net capital appreciation thereon, for general or specific purposes.

(i) *Use of Estimates*

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities and reported amounts of revenues and expenses in the financial statements and accompanying notes. Actual results could differ from these estimates

(j) *Prior-Year Summarized Comparative Information*

The financial statements include certain prior-year summarized comparative information in total but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with the Conference's financial statements for the year ended December 31, 2016, from which the summarized information was derived.

(k) *Reclassification*

Certain accounts in the prior-year financial statements have been reclassified for comparative purposes to conform to the presentation of the current-year financial statements.

Agency relationship funds totaling \$324,806 have been reclassified from non apportioned revenue line and other disbursements line on the statements of activities. Administrative expenses totaling \$432,782 have been reclassified out of other disbursements and other revenue lines to administrative expense line.

Unreimbursed pension and health insurance expense of \$2,219,784 has been reclassified out of other revenue and is reported in the statement of activities as a separate line.

Continued

GREATER NEW JERSEY ANNUAL CONFERENCE
OF THE UNITED METHODIST CHURCH

NOTES TO THE UNCONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2017

3. Investments:

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

	<u>2017</u>		<u>2016</u>	
	<u>Cost</u>	<u>Fair Value</u>	<u>Cost</u>	<u>Fair Value</u>
Certificate of Deposit	\$ 77,632	\$ 77,632	\$ 77,632	\$ 77,632
Mutual fund (fund of funds)*	16,065,146	19,265,365	16,897,134	17,750,296
General Board of Pensions	1,181,848	1,239,064	931,898	1,584,614
Total	<u>\$ 17,324,626</u>	<u>\$ 20,582,061</u>	<u>\$ 17,906,664</u>	<u>\$ 19,412,542</u>

*The Conference invests in the Multiple Asset Fund, a mutual fund managed by Wespath, that has as its objective to attain current income and capital appreciation by investing in a broad mix of different types of investments. The strategy of the mutual fund is to invest in four other Wespath mutual funds to maintain an investment allocation of approximately 40% U.S. equity, 25% international equity, 25% fixed income, and 10% inflation protection. The asset allocation will be rebalanced periodically when holding falls outside of a 3% tolerance

The following schedule summarizes the investment return and its classification in the statement of activities for the year ended December 31, 2017:

	Temporarily		<u>Total</u>
	<u>Unrestricted</u>	<u>Restricted</u>	
Dividends and interest	\$ -	\$ -	\$ -
Less investment fees	(49,212)	-	(49,212)
Investment income	(49,212)	-	(49,212)
Realized gain	994,245	53,017	1,047,262
Unrealized gain	2,307,585	-	2,307,585
Net gain on investments	3,301,830	53,017	3,354,847
Total investment return	<u>\$ 3,252,618</u>	<u>\$ 53,017</u>	<u>\$ 3,305,635</u>

Investments as of December 31, 2017 are summarized below based on when they may be redeemed or sold:

	<u>Fair Values</u>
Daily	<u>\$ 20,582,061</u>

Continued

GREATER NEW JERSEY ANNUAL CONFERENCE
OF THE UNITED METHODIST CHURCH

NOTES TO THE UNCONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2017

4. Fair Value Measurements:

The Conference reports its fair value measurements using a fair value hierarchy defined by generally accepted accounting principles (GAAP) that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements).

The three levels as of the fair value hierarchy under GAAP are:

Level 1 – Unadjusted quoted prices in active markets that are accessible at the measurement date for identical, unrestricted assets or liabilities;

Level 2 – Quoted prices for similar assets or liabilities in active markets, quoted prices for identical or similar assets or liabilities in markets that are not active, or inputs that are observable, either directly or indirectly, for substantially the full term of the asset or liability;

Level 3 – Prices or valuation techniques that require inputs that are both significant to the fair value measurement and unobservable (that is, inputs supported by little or no market activity)

Fair values of assets measured at December 31, 2017 are as follows:

	Totals	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
<u>Recurring fair value measurements:</u>				
Mutual fund (fund of funds)	\$ 19,265,365	\$ -	\$ -	\$ 19,265,365
Certificates of deposit	77,632		77,632	
General Board of Pensions (fund of funds)	<u>1,239,064</u>			<u>1,239,064</u>
Total investments	<u>20,582,061</u>	<u>-</u>	<u>77,632</u>	<u>20,504,429</u>
Beneficial interest in perpetual trust	<u>389,543</u>			<u>\$ 389,543</u>
Total fair value measurements	<u>\$ 20,971,604</u>	<u>\$ -</u>	<u>\$ 77,632</u>	<u>\$ 20,893,972</u>

Mutual fund (fund of funds) value and the value of the investments held by General Board of Pensions are based upon estimated fair value, per the net asset value, as reported by the third party fund manager. The fund manager utilizes the quoted prices for the underlying holdings as its basis for fair value measurement.

The certificate of deposit is measured with valuations obtained from real time quotes for transaction in active exchange markets involving identical assets.

Continued

GREATER NEW JERSEY ANNUAL CONFERENCE
OF THE UNITED METHODIST CHURCH

NOTES TO THE UNCONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2017

4. **Fair Value Measurements:** (continued)

Beneficial interest in perpetual trusts: the Conference considers the measurement of its beneficial interest in the trusts to be a Level 3 measurement within the fair value hierarchy because even though that measurement is based on the unadjusted fair values of the trust assets reported by the trustee, the Conference will never receive those assets or have the ability to direct the trustee to redeem them (Level 3).

Assets measured at fair value using significant unobservable inputs (Level 3 input) are as follows:

Balance of Level 3 investments as of January 1, 2017	\$ 354,288
Purchases	7,525,476
Sales	(9,710,803)
Realized gain	1,047,261
Unrealized gain	2,307,585
Change in value	35,255
Transfer out of Level 1 investments	<u>19,334,910</u>
Balance of Level 3 investments as of December 31, 2017	<u><u>\$20,893,972</u></u>

Investments in Mutual Fund (fund of funds) and General Board of Pensions with a fair value of \$19,334,910 were transferred from Level 1 investments to Level 3 investments as a result of additional information provided by the investment fund manager.

Transfers are measured at fair value on the date the transfer takes place. The Fund recognizes transfers between levels in a fair-value hierarchy at the end of the reporting period.

5. **Property and Equipment:**

Details of property and equipment are as follows:

	<u>Cost</u>	<u>Accumulated Depreciation</u>	<u>Net</u>
Land	\$ 1,322,832		\$ 1,322,832
Buildings	8,803,251	\$(1,975,810)	6,827,441
Leasehold improvements	149,577	(29,915)	119,662
Computer equipment and software	154,644	(67,841)	86,803
Furniture and fixtures	<u>226,855</u>	<u>(55,665)</u>	<u>171,190</u>
Total	<u>\$10,657,159</u>	<u>\$(2,129,231)</u>	<u>\$8,527,928</u>

Continued

GREATER NEW JERSEY ANNUAL CONFERENCE
OF THE UNITED METHODIST CHURCH

NOTES TO THE UNCONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2017

6. Net Assets Released from Restrictions:

Net assets were released from donor restrictions by incurring expenses satisfying the restricted purposes specified by donors as follows:

	<u>2017</u>	<u>2016</u>
Churches within the Conference	\$ 55,737	\$ 28,674
Scholarships	37,900	66,042
Missional programs, church growth, and church construction	925,787	635,085
Time restriction (pledges)	447,099	-
Total net assets released from restrictions	<u>\$ 1,466,523</u>	<u>\$ 729,801</u>

7. Temporarily Restricted Net Assets:

Temporarily restricted net assets are available for the following purposes:

	<u>2017</u>	<u>2016</u>
Missional programs, church growth, and/or church construction	\$ 339,791	\$1,121,702
Various scholarships for education	334,920	324,418
Retired preachers, ill or in need	147,465	137,818
Specific United Methodist Churches within the Conference	52,992	61,729
Mission concerns of the Northeast District	105,715	101,715
Benevolence to United Methodist Women	4,983	4,003
Bright Spots	7,394	7,394
Clergy assistance	1,515	1,122
Leadership development	20,000	20,000
Time restriction (pledges)	3,000	447,099
Total temporarily restricted net assets	<u>\$1,017,775</u>	<u>\$2,227,000</u>

Continued

GREATER NEW JERSEY ANNUAL CONFERENCE
OF THE UNITED METHODIST CHURCH

NOTES TO THE UNCONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2017

8. Permanently Restricted Net Assets:

Permanently restricted net assets are restricted to investment in perpetuity, the income from which is expendable to support:

	<u>2017</u>	<u>2016</u>
Various scholarships for education	\$ 344,046	\$ 340,047
Old and needy women of the Methodist Episcopal denomination	10,000	10,000
Pension and health benefits of retired clergy	5,000	5,000
Clergy assistance	4,500	4,000
Missional programs, church growth and/or church construction	271,636	242,207
Missions in North East New Jersey	<u>90,439</u>	<u>84,612</u>
Total permanently restricted net assets	<u>\$ 725,621</u>	<u>\$ 685,866</u>

9. Conference Board of Pensions:

Effective January 1, 2007, the Conference adopted the Clergy Retirement Security Program which had been established by the General Conference of the United Methodist Church. This plan supersedes and replaces the provisions of the prior plans. The church contribution rate under the Clergy Retirement Security Program is 12.50% of the active participant's plan compensation for a plan year. The 2017 church contribution rates under the Comprehensive Protection Plan are 3% for full-time clergy, 3.4% for less-than-full-time (3/4 and 1/2 time), and 4.4% for optional coverage (1/4 time or leave status.)

Under the provisions of the plans, the Conference is required to maintain an amount in its Deposit Account sufficient to provide for the monthly transfer of the church contributions on behalf of its active participants.

10. Defined Contribution Plan:

Effective January 1, 1975, the Conference adopted a contributory pension plan for lay employees, covering all full-time employees electing to participate. Under this plan the Conference will contribute 6% of each participant's annual salary, and the participants will contribute an additional 3% of all past earnings of eligible employees.

11. Multiemployer Defined Pension Plan:

The Conference contributes to three multiemployer defined benefit pension plans - the Pre-82 Plan, the Clergy Retirement Security Program (CRSP), and the Ministerial Pension Plan (MPP). The Conference does not directly manage these multiemployer plans, which are managed by The General Board of Pensions and Health Benefits of The United Methodist Church. A majority of the Conference's employees are participants in one of these multiemployer plans as of December 31, 2017, subject to eligibility requirements.

Continued

GREATER NEW JERSEY ANNUAL CONFERENCE
OF THE UNITED METHODIST CHURCH

NOTES TO THE UNCONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2011

11. Multiemployer Defined Pension Plan: (continued)

Each of these plans is organized as a nonelecting, noncontributory multiemployer church retirement plan, and therefore the plans are not subject to certain reporting requirements of the Employee Retirement Income Security Act of 1974 (ERISA), as amended. The plans' certified zone statuses are not available since the plans are not subject to ERISA reporting requirements.

The risks of participating in a multiemployer plan are different from a single employer plan in the following aspects: (1) assets contributed to the multiemployer plan by one employer may be used to provide benefits to employees of other participating employers; (2) if a participating employer stops contributing to the plan, the unfunded obligations of the plan may be borne by the remaining participating employers; (3) if an employer chooses to stop participating in a multiemployer plan, the company may be required to pay the plan an amount based on the underfunded status of the plan, referred to as a withdrawal liability. If a plan were to terminate, if participants voluntarily withdrew or there was a mass withdrawal, the Conference may also be required to make additional payments to the plan for its proportionate share of underfunded liabilities.

The following table presents information on the plans and the Conference's participation in the plans:

Plan	Employer Identification and Plan No.	Plan Funded Status as of 1/1/2017*		Annual Conference Contribution for the Year Ended		Total Plan Contribution for the Year Ended		Contribution Greater than 5% of Total
		Plan Assets 1/1/2017*	Accumulated Benefit Obligation 1/1/2017*	12/31/2017	12/31/2016	12/31/2017	12/31/2016	
CRSP	336/335176/81	\$ 1,641,427,636	\$ 2,479,431,187	\$ 2,031,675	\$ 1,942,051	\$ 104,194,172	\$ 105,542,328	No
MPP	336/335176/81	3,554,065,913	4,485,220,704	-	-	-	-	
Pre-82	336/335176/81	38,962,420	40,251,665	338,059	-	12,903,208	14,597,677	No
		\$ 5,234,455,969	\$ 7,004,903,556	\$ 2,369,734	\$ 1,942,051	\$ 117,097,380	\$ 120,140,005	

*Date of most recent available actuarial valuation report.

The plans' accumulated benefit obligations are determined annually by the plans' actuary. Significant actuarial assumptions utilized for the Pre-82 Plan include a discount rate of 6.625%, an expected rate of investment return of 6.625%, and an expected rate of salary increase of 1.68%. Significant actuarial assumptions utilized for the CRSP include a discount rate of 7%, an expected rate of investment return of 7%, and an annual cost of living benefit increase of 2.5%. Significant actuarial assumptions utilized for the MPP include a discount rate of 6.25%, an expected rate of investment return of 6.25%, and an annual cost of living benefit increase of 2.5%.

Plan assets for CRSP are invested in Multiple Asset Fund (MAF). The MAF is a mark-to-market fund with a target mix of asset classes of 10% Inflation Protection Fund, 25% Fixed Income Funds, 35% U.S. Equity Fund and 30% International Equity Fund. Actual allocation may vary slightly.

Continued

GREATER NEW JERSEY ANNUAL CONFERENCE
OF THE UNITED METHODIST CHURCH

NOTES TO THE UNCONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2017

11. Multiemployer Defined Pension Plan: (continued)

Assets supporting MPP Annuities are invested at Wespath with an overall target of 50% fixed income, 30% equities and 20% alternative investment. Actual allocation may vary slightly. The specific funds employed are the Fixed Income Fund, the Inflation Protection Funds, the Positive Social Purpose Lending Funds, the U.S. Equity Funds, the International Equity Funds, and the Special Opportunities Fund.

Plan assets for Pre-82 Plan were invested with a target mix of assets: 33% U.S. Equity Funds, 28% International Equity Funds, 28% Fixed Income Fund and 11% Inflation Projection Fund. Actual allocation may vary slightly.

At January 1, 2017, Pre-82 plan was funded 96.80%, MPP was funded 79.24% and CRSP was funded 66.2%.

12. Post-Retirement Benefit Obligation:

The Conference's post-retirement health care benefit plan provides health insurance coverage to employees with 20 years of service who retire directly from active service at or after the age of 62. Married employees eligible for the plan will also have coverage for their spouse. Upon an eligible retiree's death, spousal coverage continues for the spouse's lifetime.

Effective July 1, 2002 a person becoming an annuitant after July 1, 2002 with less than 20 years of annuity credit in the United Methodist Church at retirement shall share in the cost of the premium. The annuitant's share shall be 5% times the number of full years by which the annuity credit is less than 20.

Effective July 1, 2003 for an annuitant under the age of 65 commencing benefits after July 1, 2003, the Conference shall contribute an amount equal to the coverage cost of a Medicare-eligible annuitant, prorated for service years less than 20.

Continued

GREATER NEW JERSEY ANNUAL CONFERENCE
OF THE UNITED METHODIST CHURCH

NOTES TO THE UNCONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2017

12. **Post-Retirement Benefit Obligation:** (continued)

Obligations and Funded Status

	2017 <u>(In Thousands)</u>	2016 <u>(In Thousands)</u>
Benefit obligations	\$ (65,699)	\$ (58,018)
Funded status	<u>\$ (65,699)</u>	<u>\$ (58,018)</u>
Employer contributions	\$ 2,564	\$ 2,407
Benefit paid	<u>(2,564)</u>	<u>(2,407)</u>
	<u>\$ -</u>	<u>\$ -</u>
Amounts recognized in the statement of financial position consist of:		
Current liabilities	\$ 2,564	\$ (2,196)
Non-current liabilities	<u>63,135</u>	<u>(55,822)</u>
	<u>\$ 65,699</u>	<u>\$ (58,018)</u>
Amounts recognized in the statement of activities consist of :		
Service cost	\$ 1,151	\$ 1,112
Interest cost	2,506	2,236
Actuarial gain/loss	6,588	7,522
Benefits paid	<u>(2,564)</u>	<u>(2,407)</u>
	<u>\$ 7,681</u>	<u>\$ 8,463</u>

Items not yet recognized as a component of net periodic pensions costs

	2017 <u>(In Thousands)</u>	2016 <u>(In Thousands)</u>
Transition obligation	\$ -	\$ -
Net actuarial loss	<u>7,573</u>	<u>984</u>
Total not yet recognized as a component of net periodic pension cost	<u>\$ 7,573</u>	<u>\$ 984</u>

The transition obligation and net actuarial loss for the post-retirement benefit plan that will be amortized from changes in unrestricted net assets into net periodic benefit cost over the next fiscal year are (in thousands) \$0 and \$7,573 respectively.

Continued

GREATER NEW JERSEY ANNUAL CONFERENCE
OF THE UNITED METHODIST CHURCH

NOTES TO THE UNCONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2017

12. Post-Retirement Benefit Obligation: (continued)

The following assumptions were used in accounting for the plan:

Weighted-average assumption to determine benefit cost
and benefit obligation at December 31, 2017:

Discount rate	3.80%
Assumed Health Care Cost Trends Rates:	
Health care cost trend rate assumed for next year	Pre 65-7.5% /Post 65-8.91%
Ultimate trend rate	4.50%
Year that the ultimate rate is reached	2028

There are no plan assets at December 31, 2017.

The following benefits are expected to be paid:

	<u>(In Thousands)</u>
2018	2,542
2019	2,609
2020	2,877
2021	3,066
2022	3,244
2023-2026	18,264

13. Concentration of Credit Risk:

The Conference maintains cash balance at TD Bank in excess of the \$250,000 FDIC insured limits. The Conference's uninsured cash balances totaled \$1,635,758 as of December 31, 2017.

14. Reimbursed Expenditures:

The Conference administers a comprehensive insurance plan, a health insurance plan and a pension and disability fund for all United Methodist churches affiliated with the Conference. The Conference invoices the churches to obtain reimbursement for the cost of insurance, pension, and disability plan payments made on behalf of the churches

For the year ended December 31, 2017 the following amounts were collected and disbursed by the Conference for each respective benefit plan:

	Pension and Disability <u>Plan</u>	Health <u>Insurance</u>	Comprehensive Insurance <u>Plan</u>	<u>Total</u>
Collected	\$ 2,946,816	\$ 9,800,012	\$ 3,961,269	\$ 16,708,097
Disbursed	<u>(3,188,026)</u>	<u>(12,156,810)</u>	<u>(4,017,093)</u>	<u>(19,361,929)</u>
Net Activity	<u>\$ (241,210)</u>	<u>\$ (2,356,798)</u>	<u>\$ (55,824)</u>	<u>\$ (2,653,832)</u>

Continued

GREATER NEW JERSEY ANNUAL CONFERENCE
OF THE UNITED METHODIST CHURCH

NOTES TO THE UNCONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2017

15. Endowment:

The Conference's endowment consists of approximately 14 individual funds established for a variety of purposes. Its endowment includes both donor-restricted endowment funds and funds designated by the Council on Finance and Administration to function as endowments. As required by GAAP, net assets associated with endowment funds, including funds designated by the Council on Finance and Administration to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions.

Relevant Law

The Council on Finance and Administration of the Conference has interpreted the New Jersey State's Uniform Prudent Management of Institutional Funds Act (UPMIFA) as requiring the preservation of the fair value of the original gift as of the gift date of donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the Conference classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets are classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the organization in a manner consistent with the standard of prudence prescribed by UPMIFA

In accordance with UPMIFA, the Conference considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

- (1) The duration and preservation of the fund
- (2) The purposes of the organization and the donor-restricted endowment fund
- (3) General economic conditions
- (4) The possible effect of inflation and deflation
- (5) The expected total return from income and the appreciation of investments
- (6) Other resources of the organization
- (7) The investment policies of the organization.

Changes in Endowment Net Assets for the Fiscal Year Ended December 31, 2017:

	<u>Temporarily</u> <u>Restricted</u>	<u>Permanently</u> <u>Restricted</u>	<u>Total</u>
Opening endowment assets	\$ 286,369	\$ 685,866	\$ 972,235
Contributions		4,500	4,500
Interest and dividends	37,286		37,286
Net appreciation		35,255	35,255
Appropriated for expenditure	<u>(16,400)</u>		<u>(16,400)</u>
Closing endowment assets	<u>\$ 307,255</u>	<u>\$ 725,621</u>	<u>\$ 1,032,876</u>

Continued

GREATER NEW JERSEY ANNUAL CONFERENCE
OF THE UNITED METHODIST CHURCH

NOTES TO THE UNCONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2017

15. **Endowment:** (continued)

Return Objectives and Risk Parameters

The Conference has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment while seeking to maintain the purchasing power of the endowment assets. Endowment assets include those assets of donor-restricted funds that the organization must hold in perpetuity or for a donor-specified period as well as board-designated funds. Under this policy, as approved by the Council on Finance and Administration, the endowment assets are invested in a manner that is intended to produce results that exceed the price and yield results of the S&P 500 index while assuming a moderate level of investment risk. The Conference expects its endowment funds, over time, to provide an average rate of return of approximately 6.5 percent annually. Actual returns in any given year may vary from this amount.

Strategies Employed for Achieving Objectives

To satisfy its long-term rate-of-return objectives, the Conference relies on a total return strategy in which investments returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). The Conference targets a diversified asset allocation that places a greater emphasis on equity-based investments to achieve its long-term return objectives within prudent risk constraints.

Spending Policy and How the Investment Objectives Relate to Spending Policy

The Conference has a policy of appropriating for expenditure 5% of the average fair value of each respective endowment. The Organization expects the current spending policy to allow its endowment funds to grow at a minimal average rate of 5% annually. This is consistent with the Organization's objective to maintain the purchasing power of the endowment assets as well as to provide additional real growth through new gifts and investment return.

16. **Expense Allocation:**

Expenses are charged to program and supporting services on the basis on periodic time and expense studies. Allocation of expenses for the year ending December 31, 2017 and 2016, is as follows:

	<u>2017</u>	<u>2016</u>
Program services	\$ 12,987,238	\$ 11,855,443
Management and general	<u>3,740,767</u>	<u>4,434,684</u>
Total expenses	<u>\$ 16,728,005</u>	<u>\$ 16,290,127</u>

Continued

GREATER NEW JERSEY ANNUAL CONFERENCE
OF THE UNITED METHODIST CHURCH

NOTES TO THE UNCONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2017

17. Income Taxes:

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

The accounting standards on accounting for uncertainty in income taxes address the determination of whether tax benefits claimed or expected to be claimed on a tax return should be recorded in the financial statements. Under that guidance, the Conference may recognize the tax benefit from an uncertain tax position only if it is more likely than not that the tax position will be sustained on examination by taxing authorities based on the technical merits of the position. Examples of tax positions include the tax-exempt status of the Conference and various position related to the potential sources of unrelated business taxable income (UBIT). The tax benefits recognized in the financial statements from a tax position are measured based on the largest benefit that has a greater than 50% likelihood of being realized upon ultimate settlement. There were no unrecognized tax benefits identified or recorded as liabilities for fiscal year 2017 and 2016.

The Conference is not required to file a federal form 990 because it is an integrated auxiliary of a church. Therefore, the Conference has voluntarily elected not to file a federal form 990 since its inception and for that reason; the statute of limitations has not started to expire for IRS examination of income tax issues.

18. Related Parties:

The Conference provides administrative services to various related organizations. The payments received and in-kind services provided in 2017 are as follows:

	2016			
	Admin Fees	Reimbursement of Expenses	Donated Services	Total
A Future With Hope		\$ 9,257	\$ 33,284	\$ 42,541
The Centenary Fund and Preachers' Aid Society		5,043	10,362	15,405
United Methodist Foundation	\$ 122,352			122,352
Total administrative fees	\$ 122,352	\$ 14,300	\$ 43,646	\$ 180,298

Due to the reorganization of the Greater NJ United Methodist Camping Ministries, the Conference waived its administrative fees from that program for 2017.

The Centenary Fund provides annual support to a Conference's program which serves the needs of retired clergy, widows and dependent children of deceased clergy. The amount received in 2017 is \$606,249.

Continued

GREATER NEW JERSEY ANNUAL CONFERENCE
OF THE UNITED METHODIST CHURCH

NOTES TO THE UNCONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2017

18. **Related Parties:** (continued)

The Conference collects contributions from local churches and individuals which are designated for A Future with Hope and The Centenary Fund. The amounts remitted to related organization in 2017 are as follows:

A Future With Hope	\$ 216,654
The Centenary Fund and Preachers' Aid Society	<u>1,086</u>
	<u>\$ 217,740</u>

At December 31, 2017, the Conference had the following related party accounts payable:

A Future With Hope	\$ 146,139
UMC - Imagine No Malaria	52,373
UM Camps	327,005
The Centenary Fund and Preachers' Aid Society	<u>1,409</u>
	<u>\$ 526,926</u>

The New Jersey Episcopal office of the United Methodist Church maintains a verbal agreement with the Conference to occupy office space. The lease is on a month-to-month basis. In 2017, the related rental revenue totaled \$12,000.

The Conference subsidizes a part of The Episcopal Office's administrative expenses. In 2017, the Episcopal Office received an allotment from the Conference of \$141,678.

At December 31, 2017, the Conference had a receivable from The Episcopal Office amounting to \$79,660.

19. **Beneficial Interest in Trust:**

Under the terms of the perpetual trust, the Conference has the irrevocable right to receive the income earned on the trust asset in perpetuity, but never receive the asset held in trust. The Conference has recorded the asset at the estimated fair value of the Conference's share of the beneficial interest in trust assets. Distributions from the trust assets are recorded as unrestricted investment income in the accompanying statement of activities unless restricted by the donor. The Conference did not receive any distributions in 2017 from the trusts. Change in value of the beneficial interest in the trust assets are recorded as unrealized gains or losses in the permanently restricted net assets

Continued

GREATER NEW JERSEY ANNUAL CONFERENCE
OF THE UNITED METHODIST CHURCH

NOTES TO THE UNCONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2017

19. **Beneficial Interest in Trust:** (continued)

A summary of the beneficial interest in trusts is as follows:

Balance, beginning of year	\$ 354,288
Contributions	-
Investment return on trusts assets	35,255
Distribution to Conference	-
Balance, end of year	<u>\$ 389,543</u>

20. **Cash Flow Information:**

No liabilities for income taxes or interest expense were incurred or paid for the year ended December 31, 2017.

21. **Contingencies:**

The Conference is subject to lawsuits. In the opinion of management, all such matters are adequately covered by insurance and, if not so covered, are without merit or are of such kind, or involve such amounts as would not have a significant effect on the financial position or results of operations of the Conference if disposed of unfavorably.

22. **Subsequent Events:**

In preparing these financial statements, the Conference has evaluated events and transactions for potential recognition or disclosure through July 26, 2018, the date the financial statements were available to be issued.

In May, 2018, the Conference purchased a parsonage located in Bridgewater, NJ, for the amount of \$840,000.

Concluded