

**THE FLORIDA ANNUAL CONFERENCE OF
THE UNITED METHODIST CHURCH AND ITS DISTRICTS**

COMBINED FINANCIAL STATEMENTS
December 31, 2017 and 2016

THE FLORIDA ANNUAL CONFERENCE OF THE UNITED METHODIST CHURCH AND ITS DISTRICTS
Lakeland, Florida

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INDEPENDENT AUDITOR'S REPORT

The Audit Committee on
Finance and Administration
The Florida Annual Conference of
The United Methodist Church and its Districts
Lakeland, Florida

Report on the Financial Statements

We have audited the accompanying combined financial statements of The Florida Annual Conference of The United Methodist Church and its Districts, which comprise the combined statements of financial position as of December 31, 2017 and 2016 and the related combined statements of activities and cash flows for the years then ended, and the related notes to the combined financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the combined financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the combined financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the combined financial statements 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 combined financial statements.

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

(Continued)

Opinion

In our opinion, the combined financial statements referred to above present fairly, in all material respects, the financial position of The Florida Annual Conference of The United Methodist Church and its Districts as of December 31, 2017 and 2016, 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.

Emphasis of Matter

As discussed in Note 1, the combined financial statements being presented are only for The Florida Annual Conference of The United Methodist Church and its Districts and do not include the assets, liabilities and net assets, and the revenues and expenses of the entire Board of Trustees of The Florida Annual Conference of The United Methodist Church, Inc. that are recorded in the accounts of the other organizations of the Board of Trustees of The Florida Annual Conference of The United Methodist Church, Inc. which include Florida Southern College and The Florida United Methodist Children's Home. Accordingly, the accompanying combined financial statements are not intended to present the financial position of the entire Board of Trustees of The Florida Annual Conference of The United Methodist Church, Inc. as of December 31, 2017 and 2016, or the changes in its net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

Other Matter

Our audits were conducted for the purpose of forming an opinion on the combined financial statements as a whole. The supplementary information on pages 34-39 is presented for purposes of additional analysis and is not a required part of the combined financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the combined financial statements. The information has been subjected to the auditing procedures applied in the audit of the combined financial statements and certain other procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the combined financial statements or to the combined financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the combined financial statements as a whole.



Crowe Horwath LLP

Tampa, Florida
June 6, 2018

THE FLORIDA ANNUAL CONFERENCE OF THE UNITED METHODIST CHURCH AND ITS DISTRICTS
 COMBINED STATEMENTS OF FINANCIAL POSITION
 December 31, 2017 and 2016

	<u>2017</u>	<u>2016</u>
ASSETS		
Cash and cash equivalents	\$ 5,906,074	\$ 5,994,856
Accounts receivable	5,183,623	4,513,634
Less allowance for doubtful accounts:		
Health/pension benefits	(228,513)	(210,893)
Ministry protection	<u>(1,999,953)</u>	<u>(1,861,602)</u>
Net accounts receivable (Note 6)	2,955,157	2,441,139
Contributions receivable, net (Notes 2 and 6)	199,422	391,618
Notes and mortgage notes receivable (Notes 3 and 6)	3,369,726	3,682,354
Less allowance for loan losses	<u>(163,033)</u>	<u>(177,433)</u>
Net notes and mortgage notes receivable	3,206,693	3,504,921
Investments		
Held with affiliated organizations (Notes 4 and 6)	13,971,948	16,443,620
Beneficial interest in trusts held with others (Notes 6 and 7)	2,098,806	1,918,987
Held with third party brokers (Notes 5 and 6)	97,512,940	79,572,971
Certificates of deposit (Notes 5 and 6)	<u>105,262</u>	<u>105,262</u>
Total investments	113,688,956	98,040,840
Property and equipment, net (Note 9)	52,134,346	50,935,852
Assets held for sale (Note 9)	22,105,800	5,110,800
Other assets	<u>304,170</u>	<u>14,316</u>
Total assets	<u>\$ 200,500,618</u>	<u>\$ 166,434,342</u>
LIABILITIES AND NET ASSETS		
Liabilities		
Accounts payable and accrued expenses	\$ 1,159,136	\$ 1,551,775
Accrued loss reserves (Note 11)	8,954,956	8,134,514
Notes payable (Notes 6 and 12)	5,435,074	5,677,934
Lines of credit (Notes 6 and 13)	2,323,796	3,007,207
Other postemployment benefit liability (Note 14)	49,630,018	46,195,922
Funds held as agent	<u>1,668,017</u>	<u>1,415,292</u>
Total liabilities	69,170,997	65,982,644
Net assets		
Unrestricted		
Undesignated	25,329,155	22,874,743
Board designated		
Ministry protection (Note 11)	8,895,889	8,042,425
Pension and health benefits (Notes 10 and 14)	<u>3,913,769</u>	<u>520,387</u>
Total unrestricted net assets	38,138,813	31,437,555
Temporarily restricted (Note 16)	88,579,272	65,151,771
Permanently restricted (Note 17)	<u>4,611,536</u>	<u>3,862,372</u>
Total net assets	<u>131,329,621</u>	<u>100,451,698</u>
Total liabilities and net assets	<u>\$ 200,500,618</u>	<u>\$ 166,434,342</u>

See accompanying notes to combined financial statements.

THE FLORIDA ANNUAL CONFERENCE OF THE UNITED METHODIST CHURCH AND ITS DISTRICTS
 COMBINED STATEMENT OF ACTIVITIES
 Year ended December 31, 2017

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Revenue				
Contributions and apportionments				
Conference benevolences, clergy support and church development	\$ 12,772,249	\$ -	\$ -	\$ 12,772,249
Conference service and administration	8,609,791	-	-	8,609,791
Closed church real property contributions	-	19,577,861	-	19,577,861
Other contributions and grants	1,260,188	5,932,634	550,000	7,742,822
Self-insurance program (Notes 10 and 11)	9,839,364	-	-	9,839,364
Interest income on loans	-	133,002	-	133,002
Interest and dividends (Notes 4 and 5)	1,447,413	760,860	-	2,208,273
Change in valuation of beneficial interest in trusts held with others (Note 7)	-	30,655	149,164	179,819
Net investment return (Notes 4 and 5)	8,297,100	4,221,436	-	12,518,536
Fees for services	4,051,633	365,220	-	4,416,853
Other income	820,237	340,638	50,000	1,210,875
Gain (loss) on sale/disposal of fixed assets	-	(389,462)	-	(389,462)
Net assets released from restrictions (Note 18)	<u>7,545,343</u>	<u>(7,545,343)</u>	<u>-</u>	<u>-</u>
Total revenue	<u>54,643,318</u>	<u>23,427,501</u>	<u>749,164</u>	<u>78,819,983</u>
Expenses				
Conference benevolences, clergy support and church development	7,178,629	-	-	7,178,629
Conference service and administration	11,194,409	-	-	11,194,409
Other benevolences and grant expenditures	5,756,655	-	-	5,756,655
Self-insurance program (Notes 10 and 11)	12,667,345	-	-	12,667,345
Depreciation (Note 9)	2,376,790	-	-	2,376,790
Costs of services and other expenses	<u>4,823,239</u>	<u>-</u>	<u>-</u>	<u>4,823,239</u>
Total expenses	<u>43,997,067</u>	<u>-</u>	<u>-</u>	<u>43,997,067</u>
Change in net assets before other changes	10,646,251	23,427,501	749,164	34,822,916
Other post retirement changes other than net periodic cost (Note 14)	<u>(3,944,993)</u>	<u>-</u>	<u>-</u>	<u>(3,944,993)</u>
Change in net assets	6,701,258	23,427,501	749,164	30,877,923
Net assets at beginning of year	<u>31,437,555</u>	<u>65,151,771</u>	<u>3,862,372</u>	<u>100,451,698</u>
Net assets at end of year	<u>\$ 38,138,813</u>	<u>\$ 88,579,272</u>	<u>\$ 4,611,536</u>	<u>\$ 131,329,621</u>

See accompanying notes to combined financial statements.

THE FLORIDA ANNUAL CONFERENCE OF THE UNITED METHODIST CHURCH AND ITS DISTRICTS
 COMBINED STATEMENT OF ACTIVITIES
 Year ended December 31, 2016

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Revenue				
Contributions and apportionments				
Conference benevolences, clergy				
support and church development	\$ 12,025,249	\$ -	\$ -	\$ 12,025,249
Conference service and administration	334,067	-	-	334,067
Other contributions and grants	141,150	1,685,145	85,000	1,911,295
Self-insurance program (Notes 10 and 11)	24,036,434	-	-	24,036,434
Interest income on loans	-	5,770	-	5,770
Interest and dividends (Notes 4 and 5)	1,532,648	581,999	-	2,114,647
Change in valuation of beneficial interest				
in trusts held with others (Note 7)	-	17,067	121,897	138,964
Net investment return (Notes 4 and 5)	3,566,003	1,406,750	-	4,972,753
Fees for services	4,271,455	59,130	-	4,330,585
Other income	1,087,426	3,887,167	-	4,974,593
Gain (loss) on sale/disposal of fixed assets	-	165,410	-	165,410
Net assets released from restrictions (Note 18)	<u>3,596,501</u>	<u>(3,596,501)</u>	<u>-</u>	<u>-</u>
Total revenue	<u>50,590,933</u>	<u>4,211,937</u>	<u>206,897</u>	<u>55,009,767</u>
Expenses				
Conference benevolences, clergy				
support and church development	7,081,637	-	-	7,081,637
Conference service and administration	4,436,671	-	-	4,436,671
Other benevolences and grant expenditures	2,358,631	-	-	2,358,631
Self-insurance program (Notes 10 and 11)	29,118,585	-	-	29,118,585
Depreciation (Note 9)	1,630,654	-	-	1,630,654
Costs of services and other expenses	<u>4,218,987</u>	<u>-</u>	<u>-</u>	<u>4,218,987</u>
Total expenses	<u>48,845,165</u>	<u>-</u>	<u>-</u>	<u>48,845,165</u>
Change in net assets before other changes	1,745,768	4,211,937	206,897	6,164,602
Other post retirement changes other than net periodic cost (Note 14)	<u>7,414,958</u>	<u>-</u>	<u>-</u>	<u>7,414,958</u>
Change in net assets	9,160,726	4,211,937	206,897	13,579,560
Net assets at beginning of year	<u>22,276,829</u>	<u>60,939,834</u>	<u>3,655,475</u>	<u>86,872,138</u>
Net assets at end of year	<u>\$ 31,437,555</u>	<u>\$ 65,151,771</u>	<u>\$ 3,862,372</u>	<u>\$ 100,451,698</u>

See accompanying notes to combined financial statements.

THE FLORIDA ANNUAL CONFERENCE OF THE UNITED METHODIST CHURCH AND ITS DISTRICTS
 COMBINED STATEMENTS OF CASH FLOWS
 Years ended December 31, 2017 and 2016

	<u>2017</u>	<u>2016</u>
Cash flows from operating activities		
Change in net assets	\$ 30,877,923	\$ 13,579,560
Adjustments to reconcile change in net assets to net cash provided by operating activities		
Increase in provision for bad debts	155,971	288,795
Depreciation	2,376,790	1,630,654
Postretirement benefit changes other than periodic cost	3,944,993	(7,414,958)
Unrealized gain on investments	(10,095,274)	(6,548,924)
Realized (gain) loss on investments	(2,920,357)	1,070,276
Contribution of closed church real property	(19,505,000)	-
Gain on sale/disposal of property and equipment	(389,462)	(165,410)
Contributions to permanently restricted endowment	(749,164)	(206,897)
Changes in assets and liabilities		
(Increase) decrease in accounts and contributions receivable	(492,193)	493,754
(Increase) decrease in other assets	(289,854)	141,900
Increase (decrease) in accounts payable and accrued expenses	(392,639)	639,944
Increase (decrease) in OPEB liability	(510,897)	2,608,577
Increase (decrease) in accrued loss reserves	820,442	675,394
Increase (decrease) in funds held as agent	<u>252,725</u>	<u>(412,438)</u>
Net cash provided by operating activities	3,084,003	6,380,227
Cash flows from investing activities		
Purchases of property and equipment	(1,608,804)	(3,501,445)
Proceeds from sale of property and equipment	932,983	190,045
Proceeds from the repayment of notes and mortgage notes receivables	312,628	393,595
Purchase of investments	(32,913,665)	(23,604,765)
Sales and maturities of investments	<u>30,281,181</u>	<u>20,507,148</u>
Net cash used in investing activities	(2,995,678)	(6,015,423)
Cash flows from financing activities		
Borrowings on lines-of-credit	-	1,563,167
Borrowings on long-term debt	-	320,000
Payments on long-term debt	(926,271)	(233,371)
Contributions to permanently restricted endowment	<u>749,164</u>	<u>206,897</u>
Net cash (used in) provided by financing activities	<u>(177,107)</u>	<u>1,856,693</u>
Change in cash and cash equivalents	(88,782)	2,221,497
Cash and cash equivalents at beginning of year	<u>5,994,856</u>	<u>3,769,621</u>
Cash and cash equivalents at end of year	<u>\$ 5,906,074</u>	<u>\$ 5,994,856</u>
Supplemental disclosure of cash flow information		
Interest paid	<u>\$ 297,609</u>	<u>\$ 253,081</u>

See accompanying notes to combined financial statements.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Organization: The Florida Annual Conference of The United Methodist Church and its Districts (the Conference) is composed of the clergy and lay members of approximately 700 churches and missions located in Florida from the Apalachicola River to Key West, and is a part of The United Methodist Church. The primary financial responsibility of the Conference is to serve as a conduit for monies contributed by individual church members through their local churches for the programs of The United Methodist Church at the district, conference, jurisdictional and national levels.

The entities, boards, and committees for which funds are included in the accompanying combined financial statements of the Conference include the Conference Board of Pension and Health Benefits, the Ministry Protection Committee, the Board of Camps and Retreat Ministries, the Committee on New Church Development, the Preachers' Relief Board, the Florida Conference Episcopal Office, and other committees and boards that are part of the ministry of the Conference. Also included in the accompanying combined financial statements is the Conference's nine district offices and the Cabinet Development Fund. All significant balances and transactions among the Conference entities included in the accompanying combined financial statements have been eliminated.

These combined financial statements do not include all the assets, liabilities, and net assets, and revenues and expenses of the entire Board of Trustees of the Florida Annual Conference of the United Methodist Church, Inc. ("Board of Trustees") that are recorded in the accounts of other organizations that generally accepted accounting principles in the United States of American (GAAP) requires be consolidated into the financial statements of the Board of Trustees because the Board of Trustees have a controlling interest in these organizations. These organizations are Florida Southern College and The Florida United Methodist Children's Home.

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

Affiliated Organizations: The Florida United Methodist Foundation, Inc. (the Foundation) is a 501(c) (3) not-for-profit organization organized on June 19, 1966. The Foundation is an agency of the Conference and the United Methodist Church. Members of the Foundation are the lay and clergy members of the Florida Annual Conference. The Board of Directors is elected by the corporate members of the Foundation at the annual meeting of the Florida United Methodist Foundation. Because of the way the Board of Directors is selected, the Foundation is not required to be consolidated with the Conference financial statements.

The purpose of the Foundation is to facilitate low-interest loans to United Methodist churches and agencies of the Conference, and to facilitate charitable giving to churches, institutions, boards, and agencies of the Conference. As such, the Foundation serves as a channel in the handling of gifts to United Methodist institutions through charitable and estate planning opportunities. The Foundation is legally authorized to serve as trustee in the administration of charitable gift annuities, charitable trusts, donor advised funds, and other gifts created for the benefit of any United Methodist institution, local church or church organization.

The Foundation makes first mortgage loans to United Methodist churches, including loans for the construction and major improvement of churches, parsonages, church schools and other church operated facilities. The Foundation also serves as the agent of the Conference in managing the church loans the Conference owns. For this service, the Foundation receives 2/10ths of 1.0% of loan balances annually which amounted to approximately \$8,562 and \$1,000 for the years ended December 31, 2017 and 2016 respectively, and has been included in Conference service and administration expense in the accompanying combined statements of activities.

The Foundation manages investments on behalf of the Conference. The Conference paid the Foundation \$83,518 and \$66,880 for the years ended December 31, 2017 and 2016, respectively, to manage Conference investments held by the Foundation. The Foundation pays the Conference for property and casualty insurance. The Foundation paid the Conference \$15,770 and \$14,192 for property and casualty insurance for the years ended December 31, 2017 and 2016, respectively.

(Continued)

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Florida Southern College (FSC) was founded in 1883. FSC is a liberal arts college with more than fifty academic and pre-professional programs located in Lakeland, Florida. The thirty-seven persons serving on the Board of Trustees of FSC are elected by the Florida Annual Conference of the United Methodist Church in accordance with the FSC by-laws.

The Conference provides financial support to FSC through its apportionment giving budget. FSC received \$209,600 from the Conference Board of Higher Education and Campus Ministry in both 2017 and 2016.

The Florida United Methodist Children's Home, Inc. (the Home) was incorporated in 1908 as a not-for-profit corporation. The purpose of the Home is to care for children who otherwise cannot be provided for. The Home is governed by a Board of Trustees which consists of Florida United Methodist Church members or clergy. Nominations for the Board of Trustees come from the current Board and are approved by the Florida Annual Conference of the United Methodist Church in accordance with the Home's by-laws.

The Conference serves as a conduit for donations made by Florida United Methodist churches for the Home. The Conference forwarded \$648,352 and \$528,953 in 2017 and 2016, respectively, in donations from churches to the Home. In addition, the Home pays the Conference for property and casualty insurance. The Home paid the Conference \$166,113 and \$166,487 for property and casualty insurance for 2017 and 2016, respectively.

Revenue Recognition: The Conference recognizes grants, contracts and contributions of cash or other assets as restricted support if they are received with grantor or donor stipulations that limit the use of the donated assets. A receivable is recognized by the Conference for grants or contracts to be received from the grantor or donor.

The Conference recognizes revenues from exchange transactions when the service is rendered. A receivable is recognized by the Conference for outstanding invoices.

Net Asset Classifications: The combined financial statements report the changes in and totals of each net asset class based on the existence or absence of donor-imposed restrictions. Accordingly, net assets and changes therein are classified as follows:

Unrestricted net assets consist of operating funds available for any purpose authorized by the Board of Trustees and the Council on Finance and Administration. The Conference does put certain designations on funds annually which represent unrestricted funds which are used for future shortfalls in budgeted support and revenue for emergency and unanticipated needs of the Conference.

Temporarily restricted net assets consist of funds arising from gifts in which the donor has stipulated, as a condition of the gift, restrictions on how or when the gift may be spent.

Permanently restricted net assets consist of funds arising from a gift or bequest in which the donor has stipulated, as a condition of the gift, the principal be maintained in perpetuity and only the investment income from investment of the funds be expended. Certain donor endowments also specify that a portion of the earnings from the investment be reinvested as principal, or that all income earned over a period of time be reinvested. Amounts are also transferred for specific uses from time to time, as requested by the donor.

(Continued)

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Gifts and Contributions: Gifts and contributions are recorded at their fair value on the date of receipt. All contributions are considered to be available for unrestricted use unless specifically restricted by the donor. Gifts received that are designated for future periods or restricted by the donor for specific purposes are reported as temporarily restricted or permanently restricted support that increases those net asset categories.

Closed Church Real Property: The real property of former United Methodist churches are carried at their fair market appraised value as of the date title to the property is transferred to the Conference net of accumulated depreciation. In the year of closure the property is recorded as closed church real property contributions in the Cabinet development fund

Net Assets Released from Restrictions: When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statements of activities as net assets released from restrictions.

Fair Value of Financial Instruments: The Conference's financial instruments, which include cash and cash equivalents, accounts receivable, contributions receivable, notes and mortgages receivable, investments, beneficial interests in trusts held with others, accounts payable, and notes payable which approximate fair value at December 31, 2017 and 2016.

Cash and Cash Equivalents: The Conference considers all highly liquid investments with original maturities of three months or less when purchased to be cash equivalents.

Investments: Investments are stated at fair value, as determined by quoted market prices in the statements of financial position; unrealized gains and losses are included in the statement of activities. Realized gains/losses on disposition are based on net proceeds and the adjusted carrying amounts of the securities sold using the specific identification method.

Concentration of Credit Risk: The Conference maintains cash deposits with several financial institutions, sometimes in excess of the \$250,000 limit insured by the Federal Deposit Insurance Corporation (FDIC). Cash balances in excess of \$250,000 will potentially be subject to concentrations of credit risk. Management believes the risk is managed by maintaining all deposits in high quality financial institutions.

Use of Estimates: The preparation of combined financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the combined financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Accounts Receivable: Accounts receivable represents amounts due and what management expects to collect from the churches within the Conference for apportionments, insurance premiums, insurance recoveries and other miscellaneous items and is stated at net realizable value. Interest is not normally charged on accounts receivable. Management provides an allowance for doubtful accounts for any amounts considered to be uncollectible. The allowance for doubtful accounts is \$2,228,466 and \$2,072,495 as of December 31, 2017 and 2016, respectively. A receivable is charged off after collection efforts by the Conference have been exhausted and it is deemed that the receivable is uncollectible.

(Continued)

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Contributions Receivable: Unconditional promises to give are recorded as contributions receivable and contribution revenue when received. Unconditional promises to give that are expected to be collected within one year are recorded at net realizable value. Unconditional promises to give that are expected to be collected in future years are recorded at the present value of their estimated future cash flows. Conditional promises to give are not included as support until the conditions are substantially met.

Property and Equipment: Property and equipment is stated at cost or, if donated, at the estimated fair value at the date of donation. The Conference follows the practice of capitalizing all expenditures in excess of \$5,000 for property and equipment. Routine repairs and maintenance are expensed as incurred. Depreciation is provided over the estimated useful lives of respective assets on a straight-line basis as follows:

	<u>Years</u>
Buildings and improvements	10-40
Furniture, fixtures and equipment	5-10

Impairment of Long-Lived Assets: On an ongoing basis, the Conference reviews long-lived assets for impairment whenever events or circumstances indicate that the carrying amounts may be overstated. The Conference recognizes impairment losses if the undiscounted cash flows expected to be generated by the asset are less than the carrying value of the related asset. The impairment loss adjusts the assets to fair value. As of December 31, 2017, management believes that no impairments existed.

Assets Held for Sale: Real property that is listed for sale within the next twelve months is considered an asset held for sale. The property is carried at the lower of its net book value or its current fair market value. An impairment loss is recorded if it is determined that the fair market value is less than the property's net book value.

Funds Held as Agent: General church apportionments, district apportionments, and other program remittances from individual churches are considered funds held as agent. These remittances are for the benefit of third parties not under the control of the Conference and the use of such funds is also not under the control of the Conference. Consequently, such remittances are not included as revenue in the accompanying combined financial statements.

Funds received from individual churches for benevolences, Conference service and administration, new church starts, certain pension and benefit programs and the ministry protection program are considered unrestricted net assets. These remittances represent funds whose use is determined internally by the Conference through approval of the annual budget.

Donated Goods and Services: Significant non-cash asset contributions are recorded at fair value when received. A number of volunteers have donated significant time to the Conference's administrative and program services; however, no amounts have been reflected for these types of donated services, as there is no objective basis available to measure the value of such services.

Notes and Mortgage Notes Receivable: Notes and mortgage notes receivable primarily represent notes with churches to restructure their delinquent Ministry Protection and Health, Benefits and Pension receivables, and loans made to facilitate the sale of closed church properties. These notes are serviced by the Foundation. The notes are reported on the statements of financial position at the outstanding principal balance. Interest on loans is recognized over the term of the loan and is calculated using the simple interest method on principal amounts outstanding. The repayment term and maturity date of loans 60 days or more past due, based on contractual terms, may be extended at the original contract interest rate.

(Continued)

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Allowance for Loan Loss: An allowance for loan loss is maintained at an amount the Conference believes is adequate to provide for potential loan losses. The Conference's periodic evaluation of the adequacy of the allowance is based on known and inherent risks in the notes and mortgage notes receivable portfolio, adverse situations the Conference is aware of that may affect the borrower's ability to repay, the estimated value of any underlying collateral, and current economic conditions. The evaluation is inherently subjective as it requires estimates that are susceptible to significant revision as more information becomes available.

Interest on Notes Receivable: Interest on loans in the Conference's church mortgage loan portfolio is recognized over the term of the loan and is calculated using the simple interest method on principal amounts outstanding.

Income Tax: The Conference is exempt from federal and state income tax under the provisions of Section 501(c)(3) of the Internal Revenue Code; therefore, no provision for income taxes has been made in the accompanying combined financial statements. The Conference has also been classified as an entity that is not a private foundation within the meaning of Section 509(a) and qualifies for deductible contributions as provided in Section 170(b)(1)(A)(vi) of the Internal Revenue code.

The Conference follows guidance issued by the Financial Accounting Standards Board (FASB) with respect to accounting for uncertainty in income taxes. The Conference does not have any tax benefits recorded at December 31, 2017, and does not expect that position to significantly change in the next year. The Conference would recognize interest and/or penalties related to income tax matters in income tax expense, if applicable, and there were no amounts accrued for interest and penalties at December 31, 2017.

Recently Issued Accounting Pronouncements: In May 2014, the FASB issued Accounting Standards Update ("ASU") 2014-09, Revenue from Contracts with Customers: Topic 606. This ASU affects any entity that either enters into contracts with customers to transfer goods or services or enters into contracts for the transfer of nonfinancial assets unless those contracts are within the scope of other standards. This ASU will supersede the revenue recognition requirements in Topic 605, Revenue Recognition, and most industry-specific guidance. The core principle of the guidance is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The amendments in this ASU are effective retrospectively for fiscal years beginning after December 15, 2018. Management is currently evaluating the impact of this ASU on the Conference's financial statements.

In February 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2016-02, Leases (Topic 842), to increase transparency and comparability among organizations by recognizing lease assets and lease liabilities on the statement of financial position and disclosing key information about leasing arrangements for lessees and lessors. The new standard applies a right-of-use model that requires, for all leases with a lease term of more than 12 months, an asset representing its right to use the underlying asset for the lease term and a liability to make lease payments to be recorded. The ASU is effective for fiscal years beginning after December 15, 2019 with early adoption permitted. Management is currently evaluating the impact of this ASU on the Conference's financial statements.

(Continued)

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

In August 2016, the FASB issued ASU 2016-14, Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities, with the stated purpose of improving financial reporting by not-for-profit entities. The main provisions of the ASU would require a not-for-profit entity to: (a) present two classes of net assets on the statement of financial position entitled “net assets with donor restrictions” and “net assets without donor restrictions,” (b) present changes in each of the two classes of net assets on the statement of activities, (c) disclose quantitative and qualitative information surrounding liquidity and availability of resources (d) disclose the amount and purpose of governing board designations, appropriations, and other self-imposed limits on the use of resources, (e) present expenses by both their natural classification and functional classification, (f) disclose methods used to allocate costs among program and support functions, (g) report investment return net of external and direct internal investment expenses, and (h) use the placed-in-service approach for reporting expirations of restrictions on gifts used to acquire or construct long-lived assets in the absence of explicit donor stipulations. The ASU is effective for fiscal years beginning after December 15, 2017. The provisions of the ASU must be applied on a retrospective basis for all years presented, although certain optional practical expedients are available for the periods prior to adoption. Management is currently evaluating the impact of this ASU on Conference’s financial statements.

NOTE 2 - CONTRIBUTIONS RECEIVABLE

The following is the detail of the Conference’s contributions receivable balances at December 31:

	<u>2017</u>	<u>2016</u>
Due in less than one year	\$ 200,000	\$ 200,000
Due in one to five years	<u> -</u>	<u>200,000</u>
	200,000	400,000
Unamortized discount	<u> (578)</u>	<u> (8,382)</u>
Total contributions receivable, net	<u>\$ 199,422</u>	<u>\$ 391,618</u>

Contributions receivable were discounted using a risk adjusted rate at the time the pledge was made. No allowance for uncollectible contributions is considered necessary at December 31, 2017.

(Continued)

THE FLORIDA ANNUAL CONFERENCE OF THE UNITED METHODIST CHURCH AND ITS DISTRICTS
 NOTES TO COMBINED FINANCIAL STATEMENTS
 December 31, 2017 and 2016

NOTE 3 - NOTES AND MORTGAGE NOTES RECEIVABLE

Notes and mortgage notes receivable consisted of the following as of December 31:

Composition of loans

	<u>2017</u>	<u>2016</u>
Church development loans and mortgage notes	\$ -	\$ 80,818
Cabinet development loans and mortgage notes	3,205,893	3,420,303
Conference loans to churches	163,833	178,233
District loans to Churches	-	3,000
Subtotal	<u>3,369,726</u>	<u>3,682,354</u>
Allowance for loan losses	<u>(163,033)</u>	<u>(177,433)</u>
Loans, net of allowance	<u>\$ 3,206,693</u>	<u>\$ 3,504,921</u>

Cabinet development loans and mortgage notes represent loans advanced to entities who have purchased former United Methodist Church real estate. The loans are collateralized by a first mortgage on the church property and a title policy is required showing the Conference as the first lien holder of the property. There are no nonperforming loans that are specifically identified. The Conference considers all loans performing based on communications and agreements with borrowers. No allowance for cabinet development notes and mortgage notes receivable are considered necessary at December 31, 2017.

There are no cabinet development fund loans committed but not disbursed as of December 31, 2017.

Loans to churches represent notes with churches to restructure their delinquent Ministry Protection and Health, Benefits and Pension receivables. The notes are unsecured and non-interest bearing.

There are no loans to churches committed, but not disbursed, as of December 31, 2017.

The following table represents the aging of loans by class as of December 31, 2017:

	Principal <u>Not Past Due</u>	30 - 59 Days <u>Past Due</u>	60 - 89 Days <u>Past Due</u>	Greater than 90 Days <u>Past Due</u>	<u>Total</u>
Cabinet development loans	\$ 3,107,139	\$ -	\$ -	\$ 98,754	\$ 3,205,893
Loans to churches	<u>-</u>	<u>-</u>	<u>-</u>	<u>163,833</u>	<u>163,833</u>
Total	<u>\$ 3,107,139</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 262,587</u>	<u>\$ 3,369,726</u>

(Continued)

THE FLORIDA ANNUAL CONFERENCE OF THE UNITED METHODIST CHURCH AND ITS DISTRICTS
 NOTES TO COMBINED FINANCIAL STATEMENTS
 December 31, 2017 and 2016

NOTE 3 - NOTES AND MORTGAGE NOTES RECEIVABLE (Continued)

The following table represents the aging of loans by class as of December 31, 2016:

	Principal Not Past Due	30 - 59 Days Past Due	60 - 89 Days Past Due	Greater than 90 Days Past Due	Total
Church development loans	\$ 80,818	\$ -	\$ -	\$ -	\$ 80,818
Cabinet development loans	3,314,197	467	1,345	104,294	3,420,303
Loans to churches	-	-	-	178,233	178,233
District loans	<u>3,000</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>3,000</u>
Total	<u>\$ 3,398,015</u>	<u>\$ 467</u>	<u>\$ 1,345</u>	<u>\$ 282,527</u>	<u>\$ 3,682,354</u>

Notes and mortgage notes receivable are allocated by the Conference's internal risk ratings as follows as of December 31, 2017:

	Church Development	Cabinet Development	Loans to Churches	District Loans	Total
Performing	\$ -	\$ 3,205,893	\$ -	\$ -	\$ 3,205,893
Nonperforming	<u>-</u>	<u>-</u>	<u>163,833</u>	<u>-</u>	<u>163,833</u>
Total	<u>\$ -</u>	<u>\$ 3,205,893</u>	<u>\$ 163,833</u>	<u>\$ -</u>	<u>\$ 3,369,726</u>

Notes and mortgage notes receivable are allocated by the Conference's internal risk ratings as follows as of December 31, 2016:

	Church Development	Cabinet Development	Loans to Churches	District Loans	Total
Performing	\$ 80,818	\$ 3,313,319	\$ -	\$ 3,000	\$ 3,397,137
Nonperforming	<u>-</u>	<u>106,984</u>	<u>178,233</u>	<u>-</u>	<u>285,217</u>
Total	<u>\$ 80,818</u>	<u>\$ 3,420,303</u>	<u>\$ 178,233</u>	<u>\$ 3,000</u>	<u>\$ 3,682,354</u>

(Continued)

THE FLORIDA ANNUAL CONFERENCE OF THE UNITED METHODIST CHURCH AND ITS DISTRICTS
 NOTES TO COMBINED FINANCIAL STATEMENTS
 December 31, 2017 and 2016

NOTE 4 - INVESTMENTS HELD WITH AFFILIATED ORGANIZATIONS

The Conference's investments held with the Foundation are carried at fair value and consisted of the following at December 31:

	<u>2017</u>	<u>2016</u>
Investments in Foundation participation accounts	\$ 12,551,521	\$ 15,210,722
Other investments offered through the Foundation	<u>904,119</u>	<u>807,951</u>
	<u>\$ 13,455,640</u>	<u>\$ 16,018,673</u>

A summary of return on investments held with the Foundation consisted of the following for the year ended December 31:

	<u>2017</u>	<u>2016</u>
Interest earnings	\$ 253,231	\$ 266,742
Net realized (loss) gain	44,324	(131,448)
Net unrealized gain (loss)	120,290	296,718
Fees	<u>(5,395)</u>	<u>(15,679)</u>
	<u>\$ 412,450</u>	<u>\$ 416,333</u>

The Conference investments held with the General Board of Pensions are carried at quoted market prices and consist of the following at December 31:

	<u>2017</u>	<u>2016</u>
Investments in stocks and mutual funds	<u>\$ 516,309</u>	<u>\$ 424,947</u>

(Continued)

THE FLORIDA ANNUAL CONFERENCE OF THE UNITED METHODIST CHURCH AND ITS DISTRICTS
 NOTES TO COMBINED FINANCIAL STATEMENTS
 December 31, 2017 and 2016

NOTE 4 - INVESTMENTS HELD WITH AFFILIATED ORGANIZATIONS

A summary of return on investments with the General Board of Pensions consist of the following for the year ended December 31:

	<u>2017</u>	<u>2016</u>
Net realized gain	\$ 39,297	\$ 46,147
Net unrealized (loss) gain	<u>48,528</u>	<u>21,270</u>
	<u>\$ 87,825</u>	<u>\$ 67,417</u>

The various investments in stocks, securities, mutual funds and other investments are exposed to a variety of uncertainties, including interest rate, market and credit risks. Due to the level of risk associated with certain investments, it is possible that changes in the values of these investments could occur in the near term. Such changes could materially affect the amounts reported in the combined financial statements of the Conference.

NOTE 5 - INVESTMENTS - HELD WITH THIRD PARTY BROKERS AND CERTIFICATES OF DEPOSIT

Included in the investments - held with third party brokers are stocks and mutual funds held by brokerage firms and managed by the Board of Trustees' Investment Committee. Investments are carried at quoted market prices and consist of the following at December 31:

	<u>2017</u>	<u>2016</u>
Stocks and mutual funds		
Current Funds	\$ 3,990,760	\$ 2,968,932
Church Loan Funds	16,165,184	13,621,171
Cabinet Development Funds	13,041,551	8,443,646
Preachers Relief Funds	1,485,226	1,135,806
Camp Funds	767,146	757,734
Conference Board of Pension and Health Benefits	48,374,099	40,967,683
Ministry Protection	<u>13,688,974</u>	<u>11,677,999</u>
	<u>\$ 97,512,940</u>	<u>\$ 79,572,971</u>

Certificates of deposit consisted of the following at December 31:

	<u>2017</u>	<u>2016</u>
Certificates of Deposit		
Centerstate Bank	<u>\$ 105,262</u>	<u>\$ 105,262</u>

(Continued)

NOTE 5 - INVESTMENTS - HELD WITH THIRD PARTY BROKERS AND CERTIFICATES OF DEPOSIT
 (Continued)

A summary of return on investments held with third party brokers consists of the following for the year ended December 31:

	<u>2017</u>	<u>2016</u>
Interest earnings	\$ 1,963,295	\$ 1,851,648
Net realized gain (loss)	2,836,736	(984,971)
Net unrealized gain	9,926,457	6,091,972
Fees	<u>(403,876)</u>	<u>(351,261)</u>
	<u>\$ 14,322,612</u>	<u>\$ 6,607,388</u>

NOTE 6 - FAIR VALUE OF FINANCIAL INSTRUMENTS

Fair value is defined as the price that would be received for an asset or paid to transfer a liability (an exit price) in the Conference's principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date.

GAAP establishes a fair value hierarchy which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. GAAP describes three levels of inputs that may be used to measure fair value:

Level 1: Quoted prices (unadjusted) for identical assets or liabilities in active markets that the entity has the ability to access as of the measurement date.

Level 2: Significant other observable inputs other than Level 1 prices such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data.

Level 3: Significant unobservable inputs that reflect a reporting entity's own assumptions about the assumptions that market participants would use in pricing an asset or liability.

In many cases, a valuation technique used to measure fair value includes inputs from multiple levels of the fair value hierarchy. The lowest level of significant input determines the placement of the entire fair value measurement in the hierarchy.

Investments held with the Foundation and the General Board of Pensions are reported at fair value. The underlying assets of the investments held with the Foundation and the General Board of Pensions may include money market funds, securities and bonds.

(Continued)

NOTE 6 - FAIR VALUE OF FINANCIAL INSTRUMENTS (Continued)

The Conference invests in the Foundation Development Funds a common fund that makes low-interest construction and mortgage loans to churches. According to Foundation policy, up to 90 percent of the total Fund can be invested in church mortgages. A reserve fund consisting of \$1.5 million plus approximately ten percent of the Fund is held in the form of cash and cash equivalents in order to provide a level of liquidity to participation account investors. The Foundation invests these funds in such instruments as government-backed money market funds, government securities, federally insured bank certificates of deposit or bank deposits. Withdrawals from the Development Fund are allowed with prior written notice.

The Conference invests in the Multiple Asset Fund with the General Board of Pensions. This fund is invested in a variety of U.S. and non-U.S. securities. These include stocks, traditional bonds, inflation-linked bonds, real estate investment trusts, securities, commodities, and interests in private equity and private real estate partnerships. There are no restrictions on these funds and they are available for immediate withdrawal with a written request.

Management has considered redemption restrictions to assess classification of fair value inputs. As a result, Balanced, Stock and Development Fund assets with redemption periods of 90 days or less are considered Level 2 fair value measurements. Balanced and Development Fund assets with redemption periods of greater than 90 days are considered a Level 3 fair value measurement.

Investments held in certificates of deposit are reported at fair value. Investments held with third party brokers include money market funds, certificates of deposit, U.S. Government and U.S. Government agency obligations, corporate bonds, mortgage backed securities, exchange traded funds, mutual funds, and equity securities. Exchange traded funds, mutual funds, and equity securities are readily marketable and values are determined by obtaining quoted prices on nationally recognized securities exchanges (Level 1 inputs). Certificates of deposits are estimated to approximate deposit account balances, at market rates for similar deposits having similar maturity dates with no discounts for credit quality or liquidity where determined to be applicable. As such, these certificates of deposit are classified within Level 2. U.S. Government or agency obligations and corporate bonds are valued by obtaining sales prices on nationally recognized security exchanges (Level 1 inputs). Mortgage backed securities are valued using quoted market prices of similar securities with similar due dates or matrix pricing, which is a mathematical technique widely used in the industry to value debt securities without relying exclusively on quoted prices for the specific securities but rather by relying on the securities' relationship to other benchmark quoted securities (Level 2 inputs).

The fair value of beneficial interest in trusts held with others is based on a valuation model that calculates the present value of estimated distributable income. The valuation model incorporates assumptions that market participants would use in estimating future distributable income. The Conference values its beneficial interest at the discounted present value of estimated future distributions it expects to receive (Level 3 inputs).

(Continued)

THE FLORIDA ANNUAL CONFERENCE OF THE UNITED METHODIST CHURCH AND ITS DISTRICTS
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 December 31, 2017 and 2016

NOTE 6 - FAIR VALUE OF FINANCIAL INSTRUMENTS (Continued)

Assets measured at fair value on a recurring basis at December 31 2017 were as follows:

	2017		
	Quoted active markets identified assets (Level One)	Significant other observable inputs (Level Two)	Significant unobservable inputs (Level Three)
Investments			
Money market	\$ 2,662,742	\$ -	\$ -
Certificates of deposit and money market	-	105,262	-
Domestic equity mutual funds	38,790,598	1,756,152	-
International equity mutual funds	7,345,328		
Exchanged traded funds	1,444,316		
Domestic marketable equity securities	33,979,983		
International marketable equity securities	10,704,245	-	-
Real estate investment trusts	338,675	-	-
Liquid limited partnerships & LLC	490,901	-	-
Held with Foundation	-	13,455,640	-
Held with General Board of Pensions	-	516,308	-
Assets held for sale (Note 9)	-	-	22,105,800
Beneficial interest in trusts held by others	-	-	2,098,806
	<u>\$ 95,756,788</u>	<u>\$ 15,833,362</u>	<u>\$ 24,204,606</u>

(Continued)

THE FLORIDA ANNUAL CONFERENCE OF THE UNITED METHODIST CHURCH AND ITS DISTRICTS
 NOTES TO COMBINED FINANCIAL STATEMENTS
 December 31, 2017 and 2016

NOTE 6 - FAIR VALUE OF FINANCIAL INSTRUMENTS (Continued)

Assets measured at fair value on a recurring basis at December 31 2016 were as follows:

	2016		
	Quoted active markets identified assets (Level One)	Significant other observable inputs (Level Two)	Significant unobservable inputs (Level Three)
Investments			
Money market	\$ 1,829,799	\$ -	\$ -
Certificates of deposit and money market	-	105,262	-
U. S. Government and agency obligations	237,650	-	-
Corporate bonds	268,823	-	-
Domestic equity mutual funds	32,096,101	1,601,110	-
International equity mutual funds	5,817,339		
Domestic marketable equity securities	28,982,853	-	-
International marketable equity securities	8,480,127	-	-
Real estate investment trusts	259,169	-	-
Held with Foundation	-	16,018,673	-
Held with General Board of Pensions	-	424,947	-
Assets held for sale (Note 9)	-	-	5,110,800
Beneficial interest in trusts held by others	-	-	1,918,987
	<u>\$ 77,971,861</u>	<u>\$ 18,149,992</u>	<u>\$ 7,029,787</u>

The table below presents a reconciliation and income statement classification of gains and losses for all assets measured at fair value on a recurring basis using significant unobservable inputs (Level 3) for the year ended December 31,:

<u>Beneficial Interest in Trusts Held with Others</u>	<u>2017</u>	<u>2016</u>
Balance at beginning of year	\$ 1,918,987	\$ 1,780,023
Change in valuation of beneficial interest in trusts held by others	<u>179,819</u>	<u>138,964</u>
Balance at end of year	<u>\$ 2,098,806</u>	<u>\$ 1,918,987</u>

(Continued)

THE FLORIDA ANNUAL CONFERENCE OF THE UNITED METHODIST CHURCH AND ITS DISTRICTS
 NOTES TO COMBINED FINANCIAL STATEMENTS
 December 31, 2017 and 2016

NOTE 6 - FAIR VALUE OF FINANCIAL INSTRUMENTS (Continued)

The carrying value of the Conference's financial instruments not re-measured at fair value on a recurring basis approximates their fair value at December 31, 2017 and 2016. Such financial instruments include:

	<u>2017</u>	<u>2016</u>
Financial assets		
Net accounts and contributions receivable	\$ 3,154,579	\$ 2,832,757
Net notes and mortgages notes receivable	3,206,693	3,504,921
Financial liabilities		
Notes payable	5,435,074	5,677,934
Line of credit	2,323,796	3,007,207

NOTE 7 - BENEFICIAL INTEREST IN PERPETUAL TRUSTS HELD WITH OTHERS

The Conference is the beneficiary under various perpetual trusts administered by the Florida United Methodist Foundation. Under the terms of the trusts, the Conference has the irrevocable right to receive income earned on the trusts' assets in perpetuity, but will never receive the assets held in the trust. The underlying assets of the trusts are securities that are actively traded in the market. The Conference's interest in the trusts was valued at \$1,868,568 and \$1,719,404 for the years ended December 31, 2017 and 2016, respectively. The beneficial interests were valued using a 6% discount rate at December 31, 2017 and 2016.

The Conference is also the beneficiary of two Charitable Remainder trusts administered by Synovus Trust Company, N.A. Under the terms of the trusts, the Conference has the irrevocable right to receive fifty percent of the trust assets upon the death of the life beneficiaries as outlined in the trust documents. The underlying assets of the trusts are securities that are actively traded in the market. The Conference's interest in the trusts was valued at \$230,238 and \$199,583 for the years ended December 31, 2017 and 2016, respectively. The beneficial interest was valued using a 6% discount rate at December 31, 2017 and 2016.

NOTE 8 - ENDOWMENT COMPOSITION

Net assets associated with endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions.

Endowment funds by category as of December 31, 2017 consisted of the following:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Donor restricted funds	\$ -	\$ 2,254,251	\$ 2,742,968	\$ 4,992,219

(Continued)

THE FLORIDA ANNUAL CONFERENCE OF THE UNITED METHODIST CHURCH AND ITS DISTRICTS
 NOTES TO COMBINED FINANCIAL STATEMENTS
 December 31, 2017 and 2016

NOTE 8 - ENDOWMENT COMPOSITION (Continued)

Endowment funds by category as of December 31, 2016 consisted of the following:

	<u>Unrestricted</u>	Temporarily <u>Restricted</u>	Permanently <u>Restricted</u>	<u>Total</u>
Donor restricted funds	\$ -	\$ 1,747,246	\$ 2,137,968	\$ 3,885,214

Changes in endowment net assets for the year ended December 31, 2017 consist of the following:

	<u>Unrestricted</u>	Temporarily <u>Restricted</u>	Permanently <u>Restricted</u>	<u>Total</u>
Net assets, beginning of year	\$ -	\$ 1,747,246	\$ 2,142,968	\$ 3,885,214
Investment return:				
Interest income	-	93,139	-	93,139
Unrealized losses	-	448,890	-	448,890
Realized losses	-	57,839	-	57,839
New gifts	-	259,175	600,000	859,175
Appropriation of assets	-	(352,037)	-	(352,037)
	-	-	-	-
Net assets end of year	\$ -	\$ 2,254,251	\$ 2,742,968	\$ 4,992,219

Changes in endowment net assets for the year ended December 31, 2016 consist of the following:

	<u>Unrestricted</u>	Temporarily <u>Restricted</u>	Permanently <u>Restricted</u>	<u>Total</u>
Net assets, beginning of year	\$ -	\$ 1,398,301	\$ 2,052,968	\$ 3,451,269
Investment return:				
Interest income	-	79,899	-	79,899
Unrealized losses	-	239,130	-	239,130
Realized losses	-	(43,670)	-	(43,670)
New gifts	-	143,369	85,000	228,369
Appropriation of assets	-	(69,783)	-	(69,783)
	-	-	-	-
Net assets end of year	\$ -	\$ 1,747,246	\$ 2,137,968	\$ 3,885,214

(Continued)

NOTE 8 - ENDOWMENT COMPOSITION (Continued)

Interpretation of UPMIFA: The State of Florida has enacted the Uniform Prudent Management of Institutional Funds Act (UPMIFA) effective July 1, 2012. The Board of Trustees requires the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary which is a valid interpretation of UPMIFA.

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 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.

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 Conference must hold in perpetuity or for donor-specified period(s). Under this policy, as approved by the Board of Trustees, the endowment assets are invested in a manner that is intended to produce results that exceed the price and yield results based on blended indices while assuming a moderate level of investment risk.

Strategies Employed for Achieving Objectives: The purpose of the Endowment Fund is to facilitate donors' desires to make substantial long-term gifts to the Conference and to develop a new and significant source of revenue for the Conference. In so doing, the Endowment Fund will provide a secure, long-term source of funds to: (i) fund special grants; (ii) ensure long-term growth; and (iii) enhance the Conference's ability to meet changing Conference needs in both the short and long-term.

Spending Policy and How the Investment Objectives Relate to Spending Policy: The Conference spends funds generated by permanently restricted endowments in accordance with the restrictions placed upon them by the original donors. Each endowed fund is overseen by an Annual Conference committee that approves any distribution of income generated by the fund and which ensures that the balance of the endowed fund does not decrease below the originally endowed amount.

Funds with Deficiencies: From time to time, the fair value of assets associated with individual donor restricted endowment funds may fall below the level that the donor or Conference policies requires to retain as a fund of perpetual duration. Deficiencies of this nature in excess of related temporarily restricted amounts are reported in unrestricted net assets.

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 December 31, 2017 and 2016

NOTE 9 - PROPERTY AND EQUIPMENT

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

	<u>2017</u>	<u>2016</u>
Current funds		
Land	\$ 1,321,900	\$ 846,900
Buildings	11,877,536	8,556,386
Construction in process	-	2,363,717
Furniture, fixtures and equipment	<u>1,702,302</u>	<u>1,684,842</u>
	14,901,738	13,451,845
Less accumulated depreciation	<u>(4,594,670)</u>	<u>(4,189,634)</u>
Total current funds	<u>10,307,068</u>	<u>9,262,211</u>
 Cabinet development funds		
Land	14,203,960	13,356,952
Buildings	<u>15,665,118</u>	<u>15,059,265</u>
	29,869,078	28,416,217
Less accumulated depreciation	<u>(997,355)</u>	<u>(501,976)</u>
	28,871,723	27,914,241
Assets held for sale, net	<u>22,105,800</u>	<u>5,110,800</u>
Total cabinet development funds	<u>50,977,523</u>	<u>33,025,041</u>
 Preachers' relief funds (retired minister residences)		
Land	-	27,000
Buildings	<u>13,878</u>	<u>278,562</u>
	13,878	305,562
Less accumulated depreciation	<u>(13,716)</u>	<u>(85,341)</u>
Total preachers' relief funds	<u>162</u>	<u>220,221</u>

(Continued)

THE FLORIDA ANNUAL CONFERENCE OF THE UNITED METHODIST CHURCH AND ITS DISTRICTS
 NOTES TO COMBINED FINANCIAL STATEMENTS
 December 31, 2017 and 2016

NOTE 9 - PROPERTY AND EQUIPMENT (Continued)

Camp funds		
Land	\$ 1,990,028	\$ 1,990,029
Buildings	15,030,139	14,580,517
Construction in process	23,008	111,401
Furniture, fixtures and equipment	<u>3,152,916</u>	<u>3,046,304</u>
	20,196,091	19,728,251
Less accumulated depreciation	<u>(10,323,326)</u>	<u>(9,682,813)</u>
Total camp funds	<u>9,872,765</u>	<u>10,045,438</u>
District Work Funds		
Land	724,134	769,134
Buildings	3,545,334	3,831,473
Construction in process	-	79,052
Furniture, fixtures and equipment	<u>72,083</u>	<u>72,578</u>
	4,341,551	4,752,237
Less accumulated depreciation	<u>(1,258,923)</u>	<u>(1,258,496)</u>
Total district work funds	<u>3,082,628</u>	<u>3,493,741</u>
	<u>\$ 74,240,146</u>	<u>\$ 56,046,652</u>

Depreciation expense was \$2,376,790 and \$1,630,654 for the years ended December 31, 2017 and 2016, respectively.

NOTE 10 - EMPLOYEE SELF-INSURANCE HEALTH AND BENEFITS PROGRAMS

The Conference had a partially self-funded insurance plan for employee medical, and prescription drug insurance in 2016. Expenses were recorded as incurred. Insurance policies in force throughout 2016 limited the Conference claims cost to approximately \$300,000 and the maximum claim liability per covered individual was unlimited. The Conference's portion of the predetermined funding provision was charged to expense each month. Unpaid claims incurred prior to December 31, 2016 and filed within three months of year-end were accrued at December 31, 2016. This liability is part of accrued expenses on the statements of financial position.

Post-Retirement Health Insurance Plan: The Conference provides, at its discretion, certain health care benefits for retired clergy and spouses through participation in a funded insurance program. Retired clergy and spouses pay from \$10 per month per person up to 100% of the actual premium cost per person, depending on retirement date and years of service. The difference between the premiums paid by the retirees and the total cost of the retiree health insurance program is subsidized by the Conference Board of Pension and Health Benefits.

The Conference voted at its annual meeting in June 2016 to discontinue its self-insured health program. As of January 1, 2017, the Conference adopted a third party health insurance plan for both its active employees and retired clergy.

(Continued)

THE FLORIDA ANNUAL CONFERENCE OF THE UNITED METHODIST CHURCH AND ITS DISTRICTS
 NOTES TO COMBINED FINANCIAL STATEMENTS
 December 31, 2017 and 2016

NOTE 11 - MINISTRY PROTECTION

The Conference has had a self-funded ministry protection program for workers' compensation since 1985. For workers' compensation claims, churches pay no deductible. For the year ended December 31, 2017, claim costs in excess of \$500,000 for any one claim are covered by excess insurance. The Conference requires funding of workers' compensation insurance based on a predetermined rate multiplied by each entity's prior year payroll cost.

In December 1996, the Conference expanded its self-funded ministry protection program to include property and liability insurance. For property claims, churches are required to pay a deductible (as defined) depending on the type of claim reported. If claim costs exceed the church deductible, additional claim costs are paid from the Loss Fund until the self-insured limit is reached. The self-insured retention limits range between \$50,000 and \$1,000,000 depending on the type of claim reported. Claim costs above that limit are paid by excess insurance. The Conference obtains excess insurance coverage through re-insurance agreements arranged with traditional insurance carriers. Conference entities fund the property and liability program by paying premiums based on a number of variables including property values, square footage, and the number of insured vehicles. Properties are insured on a replacement value basis, based upon independent appraisals of properties and reported values.

For the years ended December 31, 2017 and 2016, ministry protection had the following activity:

	<u>2017</u>	<u>2016</u>
Revenue		
Workers' compensation premiums	\$ 1,536,819	\$ 1,431,675
Property and liability premiums	10,540,352	10,870,258
Investment (loss) income	2,038,391	892,410
Insurance recovery	<u>1,386,140</u>	<u>1,473,011</u>
	<u>15,501,702</u>	<u>14,667,354</u>
Expenses		
Premium payments	6,229,233	6,619,337
Claim payments and claim administrative fee	7,768,042	6,194,873
Administrative costs	514,789	548,085
Bad debt expense	<u>136,174</u>	<u>(177,135)</u>
	<u>14,648,238</u>	<u>13,185,160</u>
Increase in net assets available for loss reserve	<u>\$ 853,464</u>	<u>\$ 1,482,194</u>

Based upon an annual independent actuarial report which considers the program's loss history and the change in self-insured retention limits, changes to insurance loss reserves have been recorded for the years ended December 31, 2017 and 2016, to provide for projected actuarial claims which fall within the self-insured retention limits. As of December 31, 2017 and 2016, the Conference has accrued liabilities for workers' compensation and property and liability loss reserves of \$8,954,956 and \$6,841,405, respectively. In addition to the accrued liability for loss reserves, the Conference has Board designated net assets in the amounts of \$8,895,889 and \$8,042,425 at December 31, 2017 and 2016, respectively, for their ministry protection program.

The Conference has a \$100,000 letter of credit for the ministry protection program for workers' compensation. The letter of credit is required by and lists the Florida Self-Insurers Guaranty Association, Inc. as the beneficiary.

(Continued)

THE FLORIDA ANNUAL CONFERENCE OF THE UNITED METHODIST CHURCH AND ITS DISTRICTS
 NOTES TO COMBINED FINANCIAL STATEMENTS
 December 31, 2017 and 2016

NOTE 12 - NOTES PAYABLE

Notes payable consisted of the following at December 31, 2017:

	Outstanding <u>Balance</u>	Monthly <u>Payment</u>	Interest <u>Rate</u>	Maturity <u>Date</u>	<u>Security</u>
Campus ministry parsonages	\$ 570,304	\$ 3,640	3.50%	8/1/2035	Investments
Campus ministry deferred maintenance	519,397	3,270	3.50%	1/1/2036	Investments
Traditions land	1,573,461	Int only	3.50%	1/1/2019	Property
Villages land	1,369,299	Int only	3.50%	7/1/2022	Property
Christ mission land	113,102	2,494	3.50%	5/1/2027	Property
Nuevo Pacto church	363,768	3,083	3.50%	2/1/2031	Property
Florida Gulf Coast parsonage	302,782	1,864	3.50%	7/1/2036	Property
Life Enrichment Center house	222,950	3,185	3.50%	12/1/2028	Property
Warren Willis Camp houses	400,011	5,068	3.50%	4/1/2029	Property
	<u>\$ 5,435,074</u>				

Notes payable consisted of the following at December 31, 2016:

	Outstanding <u>Balance</u>	Monthly <u>Payment</u>	Interest <u>Rate</u>	Maturity <u>Date</u>	<u>Security</u>
Campus ministry parsonages	\$ 593,704	\$ 3,640	3.50%	8/1/2035	Investments
Campus ministry deferred maintenance	540,178	3,270	3.50%	1/1/2036	Investments
Traditions land	1,600,000	Int only	3.50%	1/1/2019	Property
Villages land	1,400,383	Int only	3.50%	7/1/2022	Property
Christ mission land	141,056	2,494	3.50%	5/1/2027	Property
Nuevo Pacto church	389,537	3,083	3.50%	2/1/2031	Property
Florida Gulf Coast parsonage	314,399	1,864	3.50%	7/1/2036	Property
Life Enrichment Center house	255,292	3,185	3.50%	12/1/2028	Property
Warren Willis Camp houses	443,385	5,068	3.50%	4/1/2029	Property
	<u>\$ 5,677,934</u>				

The debt principal payments are as follows for the year ending December 31, 2017:

2018	\$ 183,100
2019	188,619
2020	194,330
2021	200,240
2022	206,358
Thereafter	<u>4,462,427</u>
	<u>\$ 5,435,074</u>

(Continued)

NOTE 13 - LINES OF CREDIT

On February 23, 2012 the Board of Trustees obtained a \$2,500,000 irrevocable standby letter of credit from Regions Bank and secured by certain investments owned by the Conference and held at Regions Trust. On February 13, 2016 the Conference renewed and reduced its irrevocable letter of credit from Regions Bank to \$1,500,000. The amount drawn on the letter of credit accrued interest at 2% over the one month London Interbank Offered Rate (LIBOR) and the interest was payable to Regions Bank monthly. The Conference paid off and closed the line in March 2017.

The outstanding balance of the letter of credit was \$0 and \$640,816 as of December 31, 2017 and 2016, respectively. Interest paid on the letter of credit was \$4,898 and \$20,268 for the years ended December 31, 2017 and 2016, respectively.

On July 31, 2015, the Conference entered into a \$2,750,000 loan agreement with the Foundation to fund the construction of a new Wesley Center on the campus of Florida State University. Monthly payments will consist of interest only on the current draw amount. The principal balance will be due in full on August 1, 2019. Currently, interest accrues at an annual rate of 3.5%. This loan is secured by Conference funds held in the Foundation's Development Fund. The amount drawn on this loan as of December 31, 2017 and 2016 was \$2,323,796 and \$2,366,391, respectively.

NOTE 14 - PENSIONS AND OTHER POST RETIREMENT BENEFITS

Clergy Retirement Security Program: The Conference participates in the Clergy Retirement Security Program (CRSP), which is administered by the General Board of Pensions and Health Benefits ("General Board"). CRSP is a retirement program providing lifetime income for substantially all clergy and lay pastors. The CRSP has two components. First, there is a defined benefit component that requires contributions to be made by the Conference based on either denominational average compensation or actual compensation. Second, there is a defined contribution component that requires contributions to be made by the Conference based on at least 3% of eligible compensation for eligible participants. The CRSP is a program for clergy and is a result of an amendment and restatement of the Ministerial Pension Plan (MPP). As of December 31, 2017, the CRSP program consists of three different time periods based on periods of service:

- CRSP (a multiemployer program) for service beginning January 1, 2007
- MPP (a multiemployer program) for service from January 1, 1982 to December 31, 2006
- Supplement One to the Clergy Retirement Security Program for service prior to 1982 (Pre-82 Plan)

The Conference made contributions to the CRSP program of \$4,351,712 and \$4,283,478 for the years ended December 31, 2017 and 2016, respectively.

The Pre-82 Plan is a common control church defined benefit pension plan with characteristics of a multiemployer defined benefit pension plan. The risks associated with the Pre-82 Plan are different than the MPP and CRSP plans. The assets that have been contributed to the Pre-82 Plan by the Florida Conference may be used to provide benefits to clergy members of other Annual Conferences. In addition, if another Annual Conference stops funding their unfunded liability the unfunded liability may be borne by the remaining participating Annual Conferences. The current actuarial value of the Pre-82 Plan assets is \$2,203,789,443 and liabilities of \$2,045,400,188 for a net funded status of \$158,389,255.

(Continued)

NOTE 14 - PENSIONS AND OTHER POST RETIREMENT BENEFITS (Continued)

Based on the 2017 Actuarial Valuation report Florida's portion of Pre-82 Plan was funded at 93%. The Conference has 3.2% of the assets and 3.7% of the liabilities of the plan. The Conference made a \$96,437 contribution to the Pre-82 Plan in the year ending December 31, 2016. The Conference did not make a contribution to the Pre-82 plan in 2017. Based on the 2017 actuarial report received from the General Board, the Conference assets in the Pre-82 Plan currently are \$5,138,344 less than its anticipated liability. The General Board has informed the Conference that the Conference will need to make a contribution to the Pre-82 Plan in the amount of \$1,750,560 in 2018.

Comprehensive Protection Plan: The Conference also participates in the Comprehensive Protection Plan (CPP) which is administered by the General Board and provides disability and death benefits for clergy members. The cost of CPP is collected from the local churches and remitted to the General Board. The Conference forwarded \$1,121,819 and \$1,113,754 for the years ended December 31, 2017 and 2016, respectively to the General Board in CPP premiums. The General Board has informed the Conference that due to the overfunded status of the CPP liability, the Conference will not need to make CPP premium payments in 2018 and 2019.

United Methodist Personal Investment Plan (UMPIP): The Conference contributes 12% of an eligible employee's compensation to a personal UMPIP account each month. Employees are also able to make personal contributions to their UMPIP account each pay period. All funds contributed are placed in a tax-sheltered annuity (403b) plan administered by the General Board of Pension and Health Benefits. For the year ending December 31, 2017 and 2016, the Conference contributed \$429,442 and \$438,112 respectively, to the UMPIP.

Other Post Employment Benefit (OPEB): The Conference provides, at its discretion, certain health care benefits for retired clergy and spouses through participation in a funded insurance program administered by the Conference. This benefit is funded through contributions made by the Conference from investments set aside by the Conference and held at the Florida United Methodist Foundation.

The Conference recognizes the overfunded or underfunded status of a defined benefit postretirement plan as an asset or liability in its statement of financial position and to recognize changes in the funded status in the change in net assets in the year in which the changes occur. Defined benefit plan assets and obligations are to be measured as of the date of the employer's fiscal year-end.

(Continued)

THE FLORIDA ANNUAL CONFERENCE OF THE UNITED METHODIST CHURCH AND ITS DISTRICTS
 NOTES TO COMBINED FINANCIAL STATEMENTS
 December 31, 2017 and 2016

NOTE 14 - PENSIONS AND OTHER POST RETIREMENT BENEFITS (Continued)

The following table sets forth the Conference's accumulated other postretirement benefit obligation and the funded status of the obligation as set forth in the Conference's statements of combined financial position at December 31:

	<u>2017</u>	<u>2016</u>
Changes in benefit obligation		
Benefit obligation at beginning of year	\$ 46,195,922	\$ 51,002,303
Service cost	367,832	381,627
Interest cost	1,961,571	2,244,225
Actuarial (gain) loss	3,230,198	(5,446,015)
Net cash flows	<u>(2,125,505)</u>	<u>(1,986,218)</u>
Benefit obligation at end of year	<u>49,630,018</u>	<u>46,195,922</u>
Amount recorded in statements of financial position OPEB liability	<u>\$ 49,630,018</u>	<u>\$ 46,195,922</u>
Amounts recorded in statements of activities		
Self-insurance program expenses	\$ -	\$ 2,608,577
Other postretirement changes other than net periodic cost	<u>3,944,993</u>	<u>(7,414,958)</u>
Net change in OPEB liability	<u>\$ 3,944,993</u>	<u>\$ (4,806,381)</u>

Current period costs including expenditures and net cash flows totaling \$1,614,608 and \$4,594,795 is included in program expenses for the years ended December 31, 2017 and 2016, respectively. Conference contributions and benefits paid were \$1,841,122 and \$2,336,728 for the years ended December 31, 2017 and 2016, respectively.

	<u>2017</u>	<u>2016</u>
Items that have not yet been classified as periodic benefit costs		
Unrecognized prior service cost	\$(13,499,997)	\$(14,654,070)
Unrecognized net loss	12,009,748	9,218,828
Estimated net future benefit payments		
2018	2,383,448	
2019	2,534,571	
2020	2,665,546	
2021	2,775,577	
2022	2,875,153	
Years 2023-2027	<u>15,195,807</u>	
	<u>\$ 28,430,102</u>	

(Continued)

THE FLORIDA ANNUAL CONFERENCE OF THE UNITED METHODIST CHURCH AND ITS DISTRICTS
 NOTES TO COMBINED FINANCIAL STATEMENTS
 December 31, 2017 and 2016

NOTE 14 - PENSIONS AND OTHER POST RETIREMENT BENEFITS (Continued)

Assumptions used:

	<u>2017</u>	<u>2016</u>
Discount rate	3.73%	4.35%
Coverage rate	100.00%	100.00%
Health care cost trend rate	7.50%	7.75%
Rate to which the cost trend rate is assumed to decline	4.50%	5.00%
Year that the rate reaches the ultimate trend rate	2025	2025

This table illustrates the sensitivity of the postretirement liability to a change in the medical trend assumptions.

	<u>1% Point Increase</u>	<u>1% Point Decrease</u>
Effect on total of service and interest cost components	\$ 146,831	\$ (126,361)
Effect on postretirement benefit obligation	3,887,687	(3,347,001)

NOTE 15 – CABINET DEVELOPMENT FUND

The Cabinet Development Fund (CDF) was created by action of the 2015 Florida Annual Conference. The CDF was initially funded by the consolidation of the nine district new church development reserve accounts and in the future by 75% of the net proceeds of closed church property sales. The CDF exists to provide partial funding for new church starts, church revitalizations, other miscellaneous needs, or operational emergencies. Closed church properties are booked at their fair market value at the date of the church closure.

The CDF consists of the following assets and liabilities as of December 31:

	<u>2017</u>	<u>2016</u>
Mortgage notes receivable	\$ 3,205,893	\$ 3,420,303
Investments held at the Foundation	3,202,646	4,130,303
Investments held by third party brokers	13,041,551	8,443,646
Closed church properties	50,977,523	33,025,041
Mortgage notes payable	(3,419,630)	(3,530,976)
Other accrued expenses	<u>(1,783,351)</u>	<u>(138,788)</u>
	<u>\$ 65,224,632</u>	<u>\$ 45,349,529</u>

(Continued)

THE FLORIDA ANNUAL CONFERENCE OF THE UNITED METHODIST CHURCH AND ITS DISTRICTS
NOTES TO COMBINED FINANCIAL STATEMENTS
December 31, 2017 and 2016

NOTE 16 - TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets are available for the following uses as of December 31:

	<u>2017</u>	<u>2016</u>
Contributions restricted by donor for specific purposes	\$ 4,120,464	\$ 2,275,939
Church loan funds	16,990,754	15,188,005
Cabinet development funds	65,224,632	45,349,529
Preachers' relief funds	1,839,219	1,746,254
Episcopal funds	(31,932)	(27,782)
Camp funds	393,618	565,037
District work funds	<u>42,517</u>	<u>54,789</u>
	<u>\$ 88,579,272</u>	<u>\$ 65,151,771</u>

NOTE 17 - PERMANENTLY RESTRICTED NET ASSETS

Permanently restricted net assets are amounts in which the principal is invested in perpetuity and the income is expendable for various programs (church loans, scholarships, etc.). Permanently restricted net assets were as follows at December 31:

	<u>2017</u>	<u>2016</u>
Donor restricted endowment	\$ 2,742,968	\$ 2,137,968
Beneficial interest in trusts held by others	<u>2,098,806</u>	<u>1,918,987</u>
	<u>\$ 4,841,774</u>	<u>\$ 4,056,955</u>

(Continued)

NOTE 18 - NET ASSETS RELEASED FROM RESTRICTIONS

Net assets released from donor restrictions by incurring expenses satisfying the restricted purpose were as follows as of December 31:

	<u>2017</u>	<u>2016</u>
Current operating funds	\$ 2,534,579	\$ 1,151,028
Church loan funds	1,281,699	1,007,451
Cabinet development funds	3,539,261	1,024,794
Preachers' relief funds	72,909	90,870
Episcopal funds	88,790	95,891
Camp funds	15,099	202,360
District work funds	<u>13,006</u>	<u>24,107</u>
	<u>\$ 7,545,343</u>	<u>\$ 3,596,501</u>

NOTE 19 - PENDING LITIGATION

The Conference is not aware of any litigation matters in which the Conference needs to reserve for its potential liability. The Conference's maximum exposure on any single claim is \$250,000 to \$1,000,000 which would be paid by the loss fund established by the Ministry Protection Committee depending on the type of claim.

(Continued)

NOTE 20 - FUNCTIONAL EXPENSES

Expenses of the Conference by function were as follows for the years ended December 31:

	<u>2017</u>	<u>2016</u>
Program services	\$ 40,783,328	\$ 46,658,465
Management and general	<u>3,213,739</u>	<u>2,186,700</u>
	<u>\$ 43,997,067</u>	<u>\$ 48,845,165</u>

Directly identifiable expenses are charged to program services. Management and general expenses include those expenses that are not directly identifiable with any other specific function, but provide for the overall support and direction of the Conference.

NOTE 21 - SUBSEQUENT EVENTS

Management has performed an analysis of the activities and transactions subsequent to December 31, 2017, to determine the need for any adjustments or disclosures to the audited combined financial statements for the year ended December 31, 2017. Management has performed their analysis through June 6, 2018, the date the combined financial statements were available to be issued.

SUPPLEMENTARY INFORMATION

THE FLORIDA ANNUAL CONFERENCE OF THE UNITED METHODIST CHURCH
 COMBINING SCHEDULE OF FINANCIAL POSITION - ALL FUNDS
 December 31, 2017

	Current Funds	New Church Development Funds	Cabinet Development Funds	Preachers' Relief Funds	Conference Committee on Pension and Health Funds	Episcopal Funds	Ministry Protection Funds	Camp Funds	District Work Funds	Total
ASSETS										
Cash and cash equivalents	\$ 2,054,906	\$ -	\$ -	\$ -	\$ 1,534,475	\$ -	\$ 1,349,507	\$ 327,390	\$ 639,796	\$ 5,906,074
Accounts receivable	1,675,065	-	-	-	385,106	-	2,897,290	49,427	176,735	5,183,623
Less allowance for doubtful accounts	-	-	-	-	(228,513)	-	(1,999,953)	-	-	(2,228,466)
Contributions receivable, net	-	-	-	-	-	-	-	199,422	-	199,422
Notes and mortgage notes receivable	-	-	3,205,893	-	800	-	163,033	-	-	3,369,726
Less allowance for doubtful notes	-	-	-	-	-	-	(163,033)	-	-	(163,033)
Investments										
Held with affiliated organizations	1,914,586	996,419	3,202,646	433,480	3,225,451	3,048	1,790,589	61,289	2,344,440	13,971,948
Trusts held by others	2,098,806	-	-	-	-	-	-	-	-	2,098,806
Other	3,990,760	16,165,184	13,041,551	1,485,226	48,374,099	-	13,688,974	767,146	-	97,512,940
Certificates of deposit	-	-	-	-	-	-	105,262	-	-	105,262
Intercompany fund balances	1,485,323	438,084	(1,783,351)	38,076	(11,496)	(34,980)	(3,614)	(128,042)	-	-
Property and equipment, net	10,307,068	-	28,871,723	162	-	-	-	9,872,765	3,082,628	52,134,346
Assets held for sale, net	-	-	22,105,800	-	-	-	-	-	-	22,105,800
Other assets	4,580	-	-	-	273,580	-	-	26,010	-	304,170
Total assets	\$ 23,531,094	\$ 17,599,687	\$ 68,644,262	\$ 1,956,944	\$ 53,553,502	\$ (31,932)	\$ 17,828,055	\$ 11,175,407	\$ 6,243,599	\$ 200,500,618
LIABILITIES AND NET ASSETS										
Liabilities										
Accounts payable and accrued expenses	\$ 555,337	\$ -	\$ -	\$ -	\$ 9,715	\$ -	\$ (22,790)	\$ 427,344	\$ 189,530	\$ 1,159,136
Accrued loss reserves	-	-	-	-	-	-	8,954,956	-	-	8,954,956
Loan payable	1,392,483	-	3,419,630	-	-	-	-	622,961	-	5,435,074
Lines of credit	2,323,796	-	-	-	-	-	-	-	-	2,323,796
Other postemployment benefit liability liability	-	-	-	-	49,630,018	-	-	-	-	49,630,018
Funds held as agent	1,668,017	-	-	-	-	-	-	-	-	1,668,017
Total liabilities	5,939,633	-	3,419,630	-	49,639,733	-	8,932,166	1,050,305	189,530	69,170,997
Net assets										
Unrestricted										
Undesignated	9,616,119	-	-	-	-	-	-	9,731,484	5,981,552	25,329,155
Board designated										
Ministry protection	-	-	-	-	-	-	8,895,889	-	-	8,895,889
Pension and health benefits	-	-	-	-	3,913,769	-	-	-	-	3,913,769
Total unrestricted net assets	9,616,119	-	-	-	3,913,769	-	8,895,889	9,731,484	5,981,552	38,138,813
Temporarily restricted	4,120,464	16,990,754	65,224,632	1,839,219	-	(31,932)	-	393,618	42,517	88,579,272
Permanently restricted	3,854,878	608,933	-	117,725	-	-	-	-	30,000	4,611,536
Total net assets	17,591,461	17,599,687	65,224,632	1,956,944	3,913,769	(31,932)	8,895,889	10,125,102	6,054,069	131,329,621
Total liabilities and net assets	\$ 23,531,094	\$ 17,599,687	\$ 68,644,262	\$ 1,956,944	\$ 53,553,502	\$ (31,932)	\$ 17,828,055	\$ 11,175,407	\$ 6,243,599	\$ 200,500,618

THE FLORIDA ANNUAL CONFERENCE OF THE UNITED METHODIST CHURCH
 COMBINING SCHEDULE OF ACTIVITIES - ALL FUNDS
 Year ended December 31, 2017

	Current Funds	Conference Committee on Pension and Health Funds	Ministry Protection Funds	Camp Funds	District Work Funds	Elimination Entries	Total Unrestricted	Current Funds	New Church Development Funds	Cabinet Development Funds	Preachers' Relief Funds	Episcopal Funds	Camps Funds	District Work Funds	Total Temporarily Restricted	New Church Development Funds	Current Funds	Preachers' Relief Funds	District Work Funds	Total Permanently Restricted	Total
Revenue																					
Contributions and apportionments																					
Conference benevolences, clergy support and church development	\$ 10,599,128	\$ -	\$ -	\$ 508,356	\$ 1,664,765	\$ -	\$ 12,772,249	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 12,772,249
Conference service and administration	869,184	7,740,607	-	-	-	-	8,609,791	-	-	-	-	-	-	-	-	-	-	-	-	-	8,609,791
Closed church real property contributions	-	-	-	-	-	-	-	-	-	19,577,861	-	-	-	-	19,577,861	-	-	-	-	-	19,577,861
Other contributions and grants	2,166,105	17,678	-	84,405	-	(1,008,000)	1,260,188	3,104,280	674,084	2,063,052	2,205	84,560	4,453	-	5,932,634	-	550,000	-	-	550,000	7,742,822
Self-insurance program	-	-	13,463,311	-	-	(3,623,947)	9,839,364	-	-	-	-	-	-	-	-	-	-	-	-	-	9,839,364
Interest income on loans	-	-	-	-	-	-	-	-	1,380	131,622	-	-	-	-	133,002	-	-	-	-	-	133,002
Interest and dividends	31,965	1,014,875	336,927	13,528	50,118	-	1,447,413	76,063	344,360	300,436	35,100	80	4,087	734	760,860	-	-	-	-	-	2,208,273
Change in valuation of future interest in trusts	-	-	-	-	-	-	-	30,655	-	-	-	-	-	-	30,655	-	149,164	-	-	149,164	179,819
Net investment return	111,080	6,323,320	1,701,464	94,085	67,151	-	8,297,100	395,452	2,064,624	1,543,676	190,348	-	27,336	-	4,221,436	-	-	-	-	-	12,518,536
Fees for services	46,772	-	-	4,060,853	-	(55,992)	4,051,633	239,820	-	125,400	-	-	-	-	365,220	-	-	-	-	-	4,416,853
Other income	294,603	-	-	880,804	438,089	(793,259)	820,237	532,834	-	-	-	-	(192,196)	-	340,638	-	50,000	-	-	50,000	1,210,875
Gain (loss) on sale/disposal of fixed assets	-	-	-	-	-	-	-	-	-	(327,683)	(61,779)	-	-	-	(389,462)	-	-	-	-	-	(389,462)
Net assets released from restrictions	7,517,238	-	-	15,099	13,006	-	7,545,343	(2,534,579)	(1,281,699)	(3,539,261)	(72,909)	(88,790)	(15,099)	(13,006)	(7,545,343)	-	-	-	-	-	-
Total revenue	21,636,075	15,096,480	15,501,702	5,657,130	2,233,129	(5,481,198)	54,643,318	1,844,525	1,802,749	19,875,103	92,965	(4,150)	(171,419)	(12,272)	23,427,501	-	749,164	-	-	749,164	78,819,983
Expenses																					
Conference benevolences, clergy support and church development																					
Conference benevolences, clergy support and church development	7,649,598	-	-	501,459	680,304	(1,652,732)	7,178,629	-	-	-	-	-	-	-	-	-	-	-	-	-	7,178,629
Conference service and administration	1,527,785	7,758,105	368,554	-	1,685,954	(145,989)	11,194,409	-	-	-	-	-	-	-	-	-	-	-	-	-	11,194,409
Other benevolences and grant expenditures	7,120,846	-	-	278,073	13,006	(1,655,270)	5,756,655	-	-	-	-	-	-	-	-	-	-	-	-	-	5,756,655
Self-insurance program	-	-	14,279,684	-	-	(1,612,339)	12,667,345	-	-	-	-	-	-	-	-	-	-	-	-	-	12,667,345
Depreciation	1,595,975	-	-	640,515	140,300	-	2,376,790	-	-	-	-	-	-	-	-	-	-	-	-	-	2,376,790
Costs of services and other expenses	925,179	-	-	4,312,928	-	(414,868)	4,823,239	-	-	-	-	-	-	-	-	-	-	-	-	-	4,823,239
Total expenses	18,819,383	7,758,105	14,648,238	5,732,975	2,519,564	(5,481,198)	43,997,067	-	-	-	-	-	-	-	-	-	-	-	-	-	43,997,067
Change in net assets before other changes																					
Change in net assets before other changes	2,816,692	7,338,375	853,464	(75,845)	(286,435)	-	10,646,251	1,844,525	1,802,749	19,875,103	92,965	(4,150)	(171,419)	(12,272)	23,427,501	-	749,164	-	-	749,164	34,822,916
Other post retirement changes other than net periodic cost																					
Other post retirement changes other than net periodic cost	-	(3,944,993)	-	-	-	-	(3,944,993)	-	-	-	-	-	-	-	-	-	-	-	-	-	(3,944,993)
Change in net assets	2,816,692	3,393,382	853,464	(75,845)	(286,435)	-	6,701,258	1,844,525	1,802,749	19,875,103	92,965	(4,150)	(171,419)	(12,272)	23,427,501	-	749,164	-	-	749,164	30,877,923
Net assets at beginning of year	6,799,427	520,387	8,042,425	9,807,329	6,267,987	-	31,437,555	2,275,939	15,188,005	45,349,529	1,746,254	(27,782)	565,037	54,789	65,151,771	608,933	3,105,714	117,725	30,000	3,862,372	100,451,698
Net assets at end of year	\$ 9,616,119	\$ 3,913,769	\$ 8,895,889	\$ 9,731,484	\$ 5,981,552	\$ -	\$ 38,138,813	\$ 4,120,464	\$ 16,990,754	\$ 65,224,632	\$ 1,839,219	\$ (31,932)	\$ 393,618	\$ 42,517	\$ 88,579,272	\$ 608,933	\$ 3,854,878	\$ 117,725	\$ 30,000	\$ 4,611,536	\$ 131,329,621

THE FLORIDA ANNUAL CONFERENCE OF THE UNITED METHODIST CHURCH
 COMBINING SCHEDULE OF FINANCIAL POSITION - ALL FUNDS
 December 31, 2016

	Current Funds	New Church Development Funds	Cabinet Development Funds	Preachers' Relief Funds	Conference Committee on Pension and Health Funds	Episcopal Funds	Ministry Protection Funds	Camp Funds	District Work Funds	Total
ASSETS										
Cash and cash equivalents	\$ 2,135,945	\$ -	\$ -	\$ -	\$ 1,842,516	\$ -	\$ 1,032,199	\$ 593,065	\$ 391,131	\$ 5,994,856
Accounts receivable	963,291	-	-	-	739,611	-	2,508,622	79,568	222,542	4,513,634
Less allowance for doubtful accounts	-	-	-	-	(210,893)	-	(1,861,602)	-	-	(2,072,495)
Contributions receivable, net	-	-	-	-	-	-	-	391,618	-	391,618
Notes and mortgage notes receivable	-	80,818	3,420,303	-	800	-	177,433	-	3,000	3,682,354
Less allowance for doubtful notes	-	-	-	-	-	-	(177,433)	-	-	(177,433)
Investments	-	-	-	-	-	-	-	-	-	-
Held with affiliated organizations	1,200,174	1,743,802	4,130,303	409,628	5,069,836	5,967	1,543,742	45,605	2,294,563	16,443,620
Trusts held by others	1,918,987	-	-	-	-	-	-	-	-	1,918,987
Other	2,968,932	13,621,171	8,443,646	1,135,806	40,967,683	-	11,677,999	757,734	-	79,572,971
Certificates of deposit	-	-	-	-	-	-	105,262	-	-	105,262
Intercompany fund balances	(587,685)	351,147	(138,788)	98,324	(952)	(33,749)	(491)	312,194	-	-
Property and equipment, net	9,262,211	-	27,914,241	220,221	-	-	-	10,045,438	3,493,741	50,935,852
Assets held for sale, net	-	-	5,110,800	-	-	-	-	-	-	5,110,800
Other assets	2,030	-	-	-	-	-	-	12,286	-	14,316
Total assets	\$ 17,863,885	\$ 15,796,938	\$ 48,880,505	\$ 1,863,979	\$ 48,408,601	\$ (27,782)	\$ 15,005,731	\$ 12,237,508	\$ 6,404,977	\$ 166,434,342
LIABILITIES AND NET ASSETS										
Liabilities										
Accounts payable and accrued expenses	\$ 452,841	\$ -	\$ -	\$ -	\$ 399,183	\$ -	\$ 121,901	\$ 525,649	\$ 52,201	\$ 1,551,775
Accrued loss reserves	-	-	-	-	1,293,109	-	6,841,405	-	-	8,134,514
Loan payable	1,448,281	-	3,530,976	-	-	-	-	698,677	-	5,677,934
Lines of credit	2,366,391	-	-	-	-	-	-	640,816	-	3,007,207
Other postemployment benefit liability liability	-	-	-	-	46,195,922	-	-	-	-	46,195,922
Funds held as agent	1,415,292	-	-	-	-	-	-	-	-	1,415,292
Total liabilities	5,682,805	-	3,530,976	-	47,888,214	-	6,963,306	1,865,142	52,201	65,982,644
Net assets										
Unrestricted										
Undesignated	6,799,427	-	-	-	-	-	-	9,807,329	6,267,987	22,874,743
Board designated	-	-	-	-	-	-	8,042,425	-	-	8,042,425
Ministry protection	-	-	-	-	-	-	-	-	-	-
Pension and health benefits	-	-	-	-	520,387	-	-	-	-	520,387
Total unrestricted net assets	6,799,427	-	-	-	520,387	-	8,042,425	9,807,329	6,267,987	31,437,555
Temporarily restricted	2,275,939	15,188,005	45,349,529	1,746,254	-	(27,782)	-	565,037	54,789	65,151,771
Permanently restricted	3,105,714	608,933	-	117,725	-	-	-	-	30,000	3,862,372
Total net assets	12,181,080	15,796,938	45,349,529	1,863,979	520,387	(27,782)	8,042,425	10,372,366	6,352,776	100,451,698
Total liabilities and net assets	\$ 17,863,885	\$ 15,796,938	\$ 48,880,505	\$ 1,863,979	\$ 48,408,601	\$ (27,782)	\$ 15,005,731	\$ 12,237,508	\$ 6,404,977	\$ 166,434,342

THE FLORIDA ANNUAL CONFERENCE OF THE UNITED METHODIST CHURCH AND ITS DISTRICTS
 COMBINING SCHEDULE OF ACTIVITIES - ALL FUNDS
 Year ended December 31, 2016

	Current Funds	Conference Committee on Pension and Health Funds	Ministry Protection Funds	Camp Funds	District Work Funds	Elimination Entries	Total Unrestricted	Current Funds	New Church Development Funds	Cabinet Development Funds	Preachers' Relief Funds	Episcopal Funds	Camps Funds	District Work Funds	Total Temporarily Restricted	New Church Development Funds	Current Funds	Preachers' Relief Funds	District Work Funds	Total Permanently Restricted	Total
Revenue																					
Contributions and apportionments																					
Conference benevolences, clergy																					
support and church development	\$ 9,752,168	\$ -	\$ -	\$ 485,106	\$ 1,787,975	\$ -	\$ 12,025,249	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 12,025,249
Conference service																					
and administration	260,437	156,226	-	(82,596)	-	-	334,067	-	-	-	-	-	-	-	-	-	-	-	-	-	334,067
Other contributions and grants	1,028,444	367	-	-	101,339	(989,000)	141,150	1,050,002	-	511,188	3,846	83,113	27,356	9,640	1,685,145	-	60,000	-	25,000	85,000	1,911,295
Self-insurance program	-	14,445,205	13,774,944	-	-	(4,183,715)	24,036,434	-	-	-	-	-	-	-	-	-	-	-	-	-	24,036,434
Interest income on loans	-	-	-	-	-	-	-	-	5,064	706	-	-	-	-	5,770	-	-	-	-	-	5,770
Interest and dividends	24,740	1,101,235	346,314	15,195	45,164	-	1,532,648	60,380	323,937	160,763	32,230	154	4,274	261	581,999	-	-	-	-	-	2,114,647
Change in valuation of future interest																					
in trusts	-	-	-	-	-	-	-	17,067	-	-	-	-	-	-	17,067	-	121,897	-	-	121,897	138,964
Net investment return	23,577	2,918,232	546,096	39,255	38,843	-	3,566,003	146,711	890,932	280,651	77,960	-	10,496	-	1,406,750	-	-	-	-	-	4,972,753
Fees for services	48,227	-	-	4,282,843	-	(59,615)	4,271,455	59,130	-	-	-	-	-	-	59,130	-	-	-	-	-	4,330,585
Other income	-	-	-	1,112,565	772,086	(797,225)	1,087,426	215,593	435,182	3,229,716	-	-	6,676	-	3,887,167	-	-	-	-	-	4,974,593
Gain (loss) on sale/disposal of																					
fixed assets	-	-	-	-	-	-	-	-	-	-	165,410	-	-	-	165,410	-	-	-	-	-	165,410
Net assets released from restrictions	3,370,034	-	-	202,360	24,107	-	3,596,501	(1,151,028)	(1,007,451)	(1,024,794)	(90,870)	(95,891)	(202,360)	(24,107)	(3,596,501)	-	-	-	-	-	-
Total revenue	14,507,627	18,621,265	14,667,354	6,054,728	2,769,514	(6,029,555)	50,590,933	397,855	647,664	3,158,230	188,576	(12,624)	(153,558)	(14,206)	4,211,937	-	181,897	-	25,000	206,897	55,009,767
Expenses																					
Conference benevolences, clergy																					
support and church development	7,989,409	-	-	437,030	362,536	(1,707,338)	7,081,637	-	-	-	-	-	-	-	-	-	-	-	-	-	7,081,637
Conference service and administration	1,757,142	357,558	384,108	-	1,937,863	-	4,436,671	-	-	-	-	-	-	-	-	-	-	-	-	-	4,436,671
Other benevolences and																					
grant expenditures	3,874,532	-	-	257,195	-	(1,773,096)	2,358,631	-	-	-	-	-	-	-	-	-	-	-	-	-	2,358,631
Self-insurance program	-	18,555,587	12,801,052	-	-	(2,238,054)	29,118,585	-	-	-	-	-	-	-	-	-	-	-	-	-	29,118,585
Depreciation	860,409	-	-	654,066	116,179	-	1,630,654	-	-	-	-	-	-	-	-	-	-	-	-	-	1,630,654
Costs of services and other expenses	137,676	-	-	4,392,378	-	(311,067)	4,218,987	-	-	-	-	-	-	-	-	-	-	-	-	-	4,218,987
Total expenses	14,619,168	18,913,145	13,185,160	5,740,669	2,416,578	(6,029,555)	48,845,165	-	-	-	-	-	-	-	-	-	-	-	-	-	48,845,165
Change in net assets before other changes																					
	(111,541)	(291,880)	1,482,194	314,059	352,936	-	1,745,768	397,855	647,664	3,158,230	188,576	(12,624)	(153,558)	(14,206)	4,211,937	-	181,897	-	25,000	206,897	6,164,602
Other post retirement changes other than net periodic cost																					
	-	7,414,958	-	-	-	-	7,414,958	-	-	-	-	-	-	-	-	-	-	-	-	-	7,414,958
Change in net assets																					
	(111,541)	7,123,078	1,482,194	314,059	352,936	-	9,160,726	397,855	647,664	3,158,230	188,576	(12,624)	(153,558)	(14,206)	4,211,937	-	181,897	-	25,000	206,897	13,579,560
Net assets at beginning of year																					
	6,910,968	(6,602,691)	6,560,231	9,493,270	5,915,051	-	22,276,829	1,878,084	14,540,341	42,191,299	1,557,678	(15,158)	718,595	68,995	60,939,834	608,933	2,923,817	117,725	5,000	3,655,475	86,872,138
Net assets at end of year																					
	\$ 6,799,427	\$ 520,387	\$ 8,042,425	\$ 9,807,329	\$ 6,267,987	\$ -	\$ 31,437,555	\$ 2,275,939	\$ 15,188,005	\$ 45,349,529	\$ 1,746,254	\$ (27,782)	\$ 565,037	\$ 54,789	\$ 65,151,771	\$ 608,933	\$ 3,105,714	\$ 117,725	\$ 30,000	\$ 3,862,372	\$ 100,451,698

THE FLORIDA ANNUAL CONFERENCE OF THE UNITED METHODIST CHURCH AND ITS DISTRICTS
SCHEDULE OF ASSETS, LIABILITIES AND NET ASSETS
AREA EPISCOPAL OFFICE FUND
December 31, 2017 and 2016

	<u>2017</u>	<u>2016</u>
ASSETS		
Investments held with affiliated organization	\$ 3,048	\$ 5,967
Intercompany fund balance	<u>(34,980)</u>	<u>(33,749)</u>
	<u>\$ (31,932)</u>	<u>\$ (27,782)</u>
NET ASSETS		
Net assets		
Unrestricted	<u>\$ (31,932)</u>	<u>\$ (27,782)</u>
	<u>\$ (31,932)</u>	<u>\$ (27,782)</u>

THE FLORIDA ANNUAL CONFERENCE OF THE UNITED METHODIST CHURCH AND ITS DISTRICTS
SCHEDULE OF REVENUES COLLECTED AND EXPENSES PAID
AREA EPISCOPAL OFFICE FUND
Years ended December 31, 2017 and 2016

	<u>2017</u>	<u>2016</u>
Revenue collected from		
General council on finance and administration	\$ 84,560	\$ 82,900
Episcopal office reserve - investment income	80	367
Miscellaneous reimbursements	-	-
Total revenues collected	84,640	83,267
Expenses paid		
Program		
Secretarial salaries	47,359	49,475
Discretionary disbursements	3,420	6,638
Entertainment	-	650
Employee benefits and payroll taxes	20,817	22,409
Telephone	30	1,136
Staff travel	-	1,882
Rent, utilities and insurance	9,000	9,000
Equipment maintenance	-	-
Printing and copying	668	627
Office supplies	3,989	2,833
Postage	10	98
Staff continuing education	3,497	1,143
Total expenses paid	88,790	95,891
Deficit of revenue collected over expenses paid	(4,150)	(12,624)
Net assets at beginning of year	(27,782)	(15,158)
Net assets at end of year	\$ (31,932)	\$ (27,782)