

*Consolidated Financial Statements*

CONFERENCE TREASURER OF  
HOLSTON ANNUAL CONFERENCE OF  
THE UNITED METHODIST CHURCH,  
INCORPORATED

Year Ended December 31, 2016

TABLE OF CONTENTS

Page Nos.

INDEPENDENT ACCOUNTANTS' AUDIT REPORT

1-2

FINANCIAL STATEMENTS

Consolidated Statement of Financial Position

3

Consolidated Statement of Activities

4-5

Consolidated Statement of Cash Flows

6-7

Notes to the Consolidated Financial Statements

8-28

INDEPENDENT ACCOUNTANTS' AUDIT REPORT

Council on Finance and Administration  
Holston Annual Conference of the  
United Methodist Church, Incorporated  
Alcoa, Tennessee

We have audited the accompanying consolidated financial statements of the Conference Treasurer of Holston Annual Conference of the United Methodist Church, Incorporated, which comprise the consolidated statement of financial position as of December 31, 2016, and the related consolidated statements of activities and cash flows for the year then ended and the related notes to the consolidated financial statements.

**Management's Responsibility for the Consolidated Financial Statements**

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

**Auditors' Responsibility**

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

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

**Opinion**

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Conference Treasurer of Holston Annual Conference of the United Methodist Church, Incorporated as of December 31, 2016, and the changes in its net assets and cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

*Mitchell Emert + Hill*

July 21, 2017

CONFERENCE TREASURER OF  
HOLSTON ANNUAL CONFERENCE OF  
THE UNITED METHODIST CHURCH, INCORPORATED

**CONSOLIDATED STATEMENT OF FINANCIAL POSITION**

December 31, 2016

**ASSETS**

**CURRENT ASSETS**

Cash		\$ 1,483,320
Investments:		
Money market accounts	\$ 230,322	
Pooled mutual funds	25,870,402	
Notes receivable	<u>1,191,775</u>	27,292,499
Apportionments receivable		632,394
Accounts receivable		69,959
Prepaid expenses		112,900
Deposits		5,000
Property and equipment, net of accumulated depreciation		<u>4,104,373</u>
		<u><u>\$ 33,700,445</u></u>

**LIABILITIES AND NET ASSETS**

**LIABILITIES**

Accounts payable		\$ 386,436
Due to affiliated organizations		2,260,745
Accrued liabilities		16,006
Note payable		1,708,285
Postretirement benefit obligation		<u>16,460,103</u>
		20,831,575

**NET ASSETS**

Permanently restricted	\$ 107,710	
Temporarily restricted	6,354,762	
Unrestricted	<u>6,406,398</u>	<u>12,868,870</u>
		<u><u>\$ 33,700,445</u></u>

See the accompanying notes to the consolidated financial statements.

CONFERENCE TREASURER OF  
HOLSTON ANNUAL CONFERENCE OF  
THE UNITED METHODIST CHURCH, INCORPORATED

**CONSOLIDATED STATEMENT OF ACTIVITIES**

Year Ended December 31, 2016

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Totals</u>
<b>SUPPORT AND REVENUE</b>				
Apportionments from member churches	\$ 9,036,945	\$ 0	\$ 0	\$ 9,036,945
Contributions	1,920,217	811,925	0	2,732,142
Registration and fees	1,750,046	0	0	1,750,046
Pension and insurance payments	10,775,061	0	0	10,775,061
Investment gain	1,655,520	275,677	0	1,931,197
Miscellaneous income	355,696	0	0	355,696
	<u>25,493,485</u>	<u>1,087,602</u>	<u>0</u>	<u>26,581,087</u>
Net assets released from restrictions	519,859	(519,859)	0	0
	<u>26,013,344</u>	<u>567,743</u>	<u>0</u>	<u>26,581,087</u>
<b>EXPENSES</b>				
General and jurisdictional apportionments	3,391,397	0	0	3,391,397
Appointment cabinet	1,494,410	0	0	1,494,410
Ministry teams	959,909	0	0	959,909
Conference missions	1,174,695	0	0	1,174,695
Youth council	460,584	0	0	460,584
Camping and retreat ministries	2,541,024	0	0	2,541,024
Board of Higher Learning	673,322	0	0	673,322
Outreach advocacy	374,004	0	0	374,004
Board of Ordained Ministry	207,531	0	0	207,531
Abandoned churches	50,527	0	0	50,527
Conference administration	1,282,760	0	0	1,282,760
Healthcare	(1,085,786)	0	0	(1,085,786)

See the accompanying notes to the consolidated financial statements.

CONFERENCE TREASURER OF  
HOLSTON ANNUAL CONFERENCE OF  
THE UNITED METHODIST CHURCH, INCORPORATED

**CONSOLIDATED STATEMENT OF ACTIVITIES**

(continued)

Year Ended December 31, 2016

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Totals</u>
Pension	4,611,521	0	0	4,611,521
Other	<u>279,099</u>	<u>0</u>	<u>0</u>	<u>279,099</u>
	<u>16,414,997</u>	<u>0</u>	<u>0</u>	<u>16,414,997</u>
<b>CHANGE IN NET ASSETS</b>	9,598,347	567,743	0	10,166,090
<b>NET ASSETS(DEFICIT) AT THE BEGINNING OF THE YEAR</b>	<u>(3,191,947)</u>	<u>5,787,018</u>	<u>107,710</u>	<u>2,702,779</u>
<b>NET ASSETS AT THE END OF THE YEAR</b>	<u>\$ 6,406,398</u>	<u>\$ 6,354,762</u>	<u>\$ 107,710</u>	<u>\$ 12,868,870</u>

CONFERENCE TREASURER OF  
HOLSTON ANNUAL CONFERENCE OF  
THE UNITED METHODIST CHURCH, INCORPORATED

**CONSOLIDATED STATEMENT OF CASH FLOWS**

Year Ended December 31, 2016

**CASH PROVIDED(USED) BY  
OPERATING ACTIVITIES**

Change in net assets		\$ 10,166,090
Adjustments to reconcile change in net assets to net cash (used) by operating activities:		
Depreciation	\$ 92,860	
Gain on sale of Episcopal residence	(33,042)	
(Increase)decrease in:		
Apportionments receivable	332,776	
Accounts receivable	(43,436)	
Prepaid expenses	19,700	
Increase(decrease) in:		
Accounts payable	(336,945)	
Due to affiliated organizations	(219,070)	
Accrued liabilities	6,154	
Postretirement benefit obligation	<u>(11,962,001)</u>	<u>(12,143,004)</u>

**NET CASH (USED) BY  
OPERATING ACTIVITIES**

(1,976,914)

**CASH PROVIDED(USED) BY  
INVESTING ACTIVITIES**

Decrease in investments	1,566,220	
Payments received on notes receivable	348,984	
Cash proceeds from sale of Episcopal residence	369,351	
Purchase of property	<u>(11,384)</u>	

**NET CASH PROVIDED BY  
INVESTING ACTIVITIES**

2,273,171

See the accompanying notes to the consolidated financial statements.



CONFERENCE TREASURER OF  
HOLSTON ANNUAL CONFERENCE OF  
THE UNITED METHODIST CHURCH, INCORPORATED

**CONSOLIDATED STATEMENT OF CASH FLOWS**

(continued)

Year Ended December 31, 2016

**CASH PROVIDED(USED) BY  
FINANCING ACTIVITIES**

Principal payments on long-term debt

(88,417)

**NET INCREASE IN CASH**

207,840

**CASH AT THE BEGINNING OF THE YEAR**

1,505,802

**CASH AT THE END OF THE YEAR**

\$ 1,713,642

CONFERENCE TREASURER OF  
HOLSTON ANNUAL CONFERENCE OF  
THE UNITED METHODIST CHURCH, INCORPORATED

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

December 31, 2016

**NOTE A - DESCRIPTION OF ORGANIZATION**

Holston Annual Conference of the United Methodist Church, Incorporated (the Conference) is one of the basic organizational bodies in the global United Methodist Church. The Conference consists of 12 districts in Tennessee, Georgia and Virginia and includes over 162,000 members in approximately 880 United Methodist Churches. The Conference provides administrative and program services to churches, clergy and laypeople within its geographic boundaries. Primary among these services are ordination and assignment of ministers, volunteer training, new church development and the collection and remittance of funds for local, regional and international ministries. The consolidated financial statements present only the operations, activities and transactions of the Conference Treasurer's offices. District, camping activities and other ministry operations are maintained by separate organizations controlled by the Conference; however, they have not been included in the consolidated financial statements. During the year ended December 31, 2012, Holston Conference Holding Company, Inc. (the Holding Company), was formed for the purpose of receiving, holding, managing, selling and otherwise disposing of real property, fixed assets and furnishings of United Methodist Churches and other related organizations operating under the authority or governance of the Conference. The Holding Company is a separate legal entity operating under the authority of the Conference. The activities of the Holding Company have been included in the consolidated financial statements of the Conference.

**NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the amounts reported in the consolidated financial statements and accompanying notes. Although these estimates are based on management's knowledge of current events and actions they may undertake in the future, actual results could differ from those estimates. Estimates are used when accounting for fair value of pledges, allowances for uncollectible receivables, depreciation, health insurance liabilities, allocation of expenses, and contingencies, among others.

CONFERENCE TREASURER OF  
HOLSTON ANNUAL CONFERENCE OF  
THE UNITED METHODIST CHURCH, INCORPORATED

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

(continued)

December 31, 2016

Cash and Cash Equivalents

Cash and cash equivalents consist of cash and interest-bearing deposits. For purposes of the consolidated statement of cash flows, the Conference considers cash on deposit with financial institutions and all cash investments with original maturities of three months or less to be cash and cash equivalents.

At December 31, 2016 cash and cash equivalents consisted of the following:

Cash	\$ 1,483,320
Investments: Money market accounts	<u>230,322</u>
	<u>\$ 1,713,642</u>

Property and Equipment

Property and equipment are recorded at cost or estimated cost if actual cost is not available. Donated property and equipment are recorded at the estimated fair value at the date of receipt. Depreciation is calculated using the straight-line method over the estimated useful lives of the assets, which range from five to forty years. Depreciation expense for the year ended December 31, 2016 was \$92,860.

The Conference's policy is to capitalize all acquisitions of land, buildings and equipment costing \$2,500 or more.

As required by the United Methodist Church's policy, the Conference receives the church property when a church is abandoned. The Conference holds the church property with the intention of selling it and using the funds for Conference operations. At the Conference's discretion, a portion of sale may also be returned to the district in which the property was located. When the property is received, the Conference records the fair market value of the property as a contribution. Fair market value is estimated based on recent market transaction on similar assets that are observable or that can be corroborated by observable market data (Level 2 of the valuation hierarchy). There were no contributions from church property held for sale during the year ended December 31, 2016.

CONFERENCE TREASURER OF  
HOLSTON ANNUAL CONFERENCE OF  
THE UNITED METHODIST CHURCH, INCORPORATED

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

(continued)

December 31, 2016

At December 31, 2016 property and equipment consisted of the following:

Land	\$ 586,629
Buildings	4,093,220
Property held for sale	321,490
Equipment	<u>106,412</u>
	5,107,751
Less accumulated depreciation	<u>(1,003,379)</u>
	<u>\$ 4,104,373</u>

Support and Revenue

Apportionment revenue, a principal source of revenue and support, represents amounts paid by member churches to fund Conference initiatives and operating expenses. The Conference records revenue during the year based on actual funds received. Final revenue and receivables for the current year are recorded at year-end, based on subsequent receipts collected in January that relate to the prior year. Accordingly, there is no need to consider or record an allowance for uncollectible apportionments. Receivables are never considered delinquent and no interest is charged on receivables. Apportionment revenue does not include amounts collected from member churches to be passed on to the general United Methodist Church

Contributions are recorded as support when cash or other assets are received. Contributions are considered to be available for unrestricted use unless specifically restricted by the donor. Gifts of cash and other assets that are designated for future periods or restricted by the donor for specific purposes are reported as temporarily restricted or permanently restricted support, depending on the nature of the restriction. 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 consolidated statement of activities as net assets released from restrictions. Restricted grants and contributions whose restrictions are met in the same reporting period as they are received are reported as unrestricted. Revenue from services is recognized when the service is rendered.

CONFERENCE TREASURER OF  
HOLSTON ANNUAL CONFERENCE OF  
THE UNITED METHODIST CHURCH, INCORPORATED

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

(continued)

December 31, 2016

Contributions of property and equipment and other long-lived assets with explicit restrictions that specify how the assets are to be used, including cash contributed to acquire such assets, are recorded as restricted support. Absent explicit donor stipulations about how long those long-lived assets must be maintained, the expiration of donor restrictions is reported when the donated or acquired assets are placed in service.

Notes Receivable

Notes receivable represent funds advanced to churches within the Conference and to a private college affiliated with the United Methodist Church. Notes receivable are stated at unpaid principal balance. Interest on notes receivable is recognized over the term of the loan. Notes receivable are secured by deeds of trust for property with a fair market value in excess of the respective loan amount. The Conference's relationship with its borrowers is unlike that of a typical commercial lender. The Conference may make loans to borrowers which would be unable to secure financing from commercial sources. The ability of each borrower to pay the Conference may depend on the contributions the congregation receives from its members. Therefore, payments to the Conference may depend on the continued growth in membership of the borrower, and on the maintenance of adequate contributions by individual members, as well as prudent management of the borrowers of their finances. The Conference may also accommodate partial, deferred, or late payments more readily than commercial lenders. Such loan practices may result in lower collections than a commercial lender and a higher loan delinquency rate.

CONFERENCE TREASURER OF  
HOLSTON ANNUAL CONFERENCE OF  
THE UNITED METHODIST CHURCH, INCORPORATED

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

(continued)

December 31, 2016

**NOTE C - INVESTMENTS**

Investments at December 31, 2016 consisted of the following:

Money market accounts		\$ 230,322
Pooled mutual funds		25,870,402
Notes receivable:		
Current	\$ 34,332	
Long-term	80,008	
Other note receivable:		
Long-term	<u>1,054,673</u>	<u>1,169,014</u>
		<u>\$ 27,269,738</u>

The framework for measuring fair value provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (level 1) and the lowest priority to unobservable inputs (level 3). The three levels of the fair value hierarchy under Financial Accounting Standards Board's Accounting Standards Codification 820, *Fair Value Measurement*, are described as follows:

*Level 1:* Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the Conference has the ability to access.

*Level 2:* Inputs to the valuation methodology include

- Quoted prices for similar assets or liabilities in active markets;
- Quoted prices for identical or similar assets or liabilities in inactive markets;
- Inputs other than quoted prices that are observable for the asset or liability;
- Inputs that are derived principally from or corroborated by observable market data by correlation or other means.

*Level 3:* Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

CONFERENCE TREASURER OF  
HOLSTON ANNUAL CONFERENCE OF  
THE UNITED METHODIST CHURCH, INCORPORATED

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

(continued)

December 31, 2016

Investments in equity securities, debt securities and pooled mutual funds are reported in the accompanying consolidated financial statements at fair value. Of the total investments, \$11,869,589 was held at the Holston Conference Foundation and \$14,231,135 was held at the General Board of Pensions. Money market accounts held with the Holston Conference Foundation are valued using quoted prices in active markets for identical assets (Level 1). Fair value for pooled mutual funds have been calculated based on the net assets of the underlying pool of securities (Level 2). Fair value for notes receivable have been calculated based on the unpaid principal balance (Level 3). For further information regarding the fair value measurement and types of investments held by the General Board of Pension see the annual report of the General Board of Pension. For further information regarding the fair value measurement and types of investments held by the Holston Conference Foundation see the annual report of the Holston Conference Foundation.

		Fair Value Measurements Using		
	Fair Value	Quoted Prices In Active Markets for Identical Assets (Level 1)	Inputs Other than Quoted Prices that are Observable for the Asset or Liability (Level 2)	Significant Unobservable Inputs (Level 3)
Money market accounts	\$ 230,322	\$ 230,322	\$ 0	\$ 0
Pooled mutual funds	25,870,402	0	25,870,402	0
Notes receivable	1,169,014	0	0	1,169,014
	\$ 27,269,738	\$ 230,322	\$ 25,870,402	\$ 1,169,014

CONFERENCE TREASURER OF  
HOLSTON ANNUAL CONFERENCE OF  
THE UNITED METHODIST CHURCH, INCORPORATED

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

(continued)

December 31, 2016

Realized and unrealized gains and losses are determined on the basis of specific identification. Investment income for the year ended December 31, 2016 consisted of the following:

Interest and dividends	\$ 217,628
Realized gain	2,035,004
Unrealized (loss)	(320,982)
Expenses	<u>(453)</u>
	<u>\$ 1,931,197</u>

**NOTE D - INCOME TAX STATUS**

The Conference is exempt from federal income taxes under section 501(c)(3) of the U.S. Internal Revenue Code, except on unrelated business income. The Conference had no unrelated business income for the year ended December 31, 2016. The Conference believes that it has appropriate support for any tax positions taken, and as such, does not have any uncertain tax positions that are material to the consolidated financial statements.

**NOTE E - LONG-TERM DEBT**

Note payable to a bank, due in monthly installments of \$11,380, including interest of 4.80% per annum, through February 2018, remaining principal due February 19, 2018, secured by real property	\$ 1,180.078
Note payable to a bank, due in monthly installments of \$2,278, including interest of 3.0% per annum, through January 2026, remaining principal due January 5, 2026, secured by real property	<u>528,207</u>
	1,708,285
Less current maturities	<u>(92,736)</u>
	<u>\$ 1,615,549</u>



CONFERENCE TREASURER OF  
HOLSTON ANNUAL CONFERENCE OF  
THE UNITED METHODIST CHURCH, INCORPORATED

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

(continued)

December 31, 2016

Future maturities of long-term debt are as follows:

<u>Year Ending</u> <u>December 31,</u>	
2017	\$ 92,736
2018	1,111,612
2019	12,650
2020	13,076
2021	13,474
Thereafter	<u>464,737</u>
	<u>\$ 1,708,285</u>

Interest paid during the year was \$75,489, none of which was capitalized.

**NOTE F - CONCENTRATIONS OF CREDIT RISK**

Financial instruments that potentially subject the Conference to concentrations of credit risk consist primarily of cash and cash equivalents and accounts receivable. Cash and cash equivalents are maintained in demand deposit accounts which, at times, may exceed federally insured limits. The Conference has not experienced any losses and does not believe it is exposed to any significant credit risk on such accounts. By their nature, all such financial instruments involve risk, including the credit risk of nonperformance by counterparties. Exposure to credit risk is managed through various monitoring procedures. At December 31, 2016 the Conference had no major concentrations of credit risk except for uninsured bank deposits and notes receivable, including its investments at Wespeth and the Holston Conference Foundation. Approximately 90% of notes receivable are due from Hiwassee College, an affiliate of the United Methodist Church.

CONFERENCE TREASURER OF  
HOLSTON ANNUAL CONFERENCE OF  
THE UNITED METHODIST CHURCH, INCORPORATED

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

(continued)

December 31, 2016

**NOTE G - NET ASSETS**

Permanently restricted net assets consist of the following:

Superannuate Endowment (clergy retirement supplement)	<u>\$ 107,710</u>
---	-------------------

Temporarily restricted net assets are available for the following purposes:

Builders Club loans	\$ 2,679,183
College scholarship	1,269,860
Porter scholarship endowment	10,325
Annual Conference offering - Sudan	366,126
Gatlinburg wildfires	297,627
Episcopal office	117,465
Ministerial education fund	375,935
Matt K. Bowman pension endowment	167,967
AIDS scholarship fund	39,800
Appalachian Trail outreach ministries	15,442
Camp Lookout endowment	11,624
Peace with Justice	6,983
Holston Conference CEF	4,408
Church Builders grant funds	830,940
Phil and Georgia Millet endowment	35,361
Maynard scholarship endowment	21,445
Camping endowment	<u>104,271</u>
	<u>\$ 6,354,762</u>

CONFERENCE TREASURER OF  
HOLSTON ANNUAL CONFERENCE OF  
THE UNITED METHODIST CHURCH, INCORPORATED

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

(continued)

December 31, 2016

Unrestricted net assets are designated by the Conference for the following purposes:

Pension endowment	\$ 5,444,860
Camping endowment	603,251
New church real estate endowment	577,756
Trustee endowment	380,783
Superannuate endowment	167,926
Sudan missions	133,183
Change for Children	154,319
Local pastors school	11,757
Strength for the Journey	17,612
Jubilation	46,307
Annual conference	62,007
Communication	32,801
Wesley Leadership Institute	590
Older adult ministries	5,034
Lead Kids	6,016
Hispanic ministries	4,240
Stewardship annual events	873
Other projects	<u>7,575</u>
	7,656,890
Undesignated deficit	<u>(1,250,492)</u>
	<u>\$ 6,406,398</u>

Certain net assets classified as designated at December 31, 2015 have been reclassified as temporarily restricted at December 31, 2016

CONFERENCE TREASURER OF  
HOLSTON ANNUAL CONFERENCE OF  
THE UNITED METHODIST CHURCH, INCORPORATED

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

(continued)

December 31, 2016

**NOTE H - NET ASSETS RELEASED FROM RESTRICTIONS**

Net assets were released from donor restrictions by incurring expenses satisfying the following restricted purposes:

Builders Club	\$ 109,400
Episcopal office	65,001
Ministerial education fund	128,313
AIDS fund scholarship	5,000
Appalachian Trail outreach ministries	13,714
Scholarship	49,800
Gatlinburg wildfires	32,500
Annual Conference Offering - India	1,034
Annual Conference Offering - Sudan	110,557
Camping	<u>4,539</u>
	<u>\$ 519,859</u>

**NOTE I - PENSION PLANS**

The Conference and its local churches participate in three separate multiemployer pension plans covering substantially all clergy and eligible lay employees in the Conference. Conference clergy entering service prior to December 31, 1981 are covered by a defined benefit multi-employer pension plan (Pre-82). Conference clergy that have creditable service between January 1, 1982 and December 31, 2006 participated in a pension plan that is a multi-employer defined contribution plan (MPP). Contributions to the MPP plan are no longer made, however, the plan could have unamortized liabilities based upon the annuity rates that have been granted to retirees. Clergy that serve from January 1, 2007 through the present are currently receiving pensionable wages as a part of the Clergy Security Retirement Program (CRSP) which is a multi-employer defined benefit and defined contribution plan. Each of these three plans is administered by Wespeth and are rated and required to be funded on an actuarial basis each year. A participant may be enrolled in all three pension plans based upon their years of service.

CONFERENCE TREASURER OF  
HOLSTON ANNUAL CONFERENCE OF  
THE UNITED METHODIST CHURCH, INCORPORATED

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
(continued)

December 31, 2016

As part of the connectional system, and since the pension plans are multi-employer plans, any unfunded liability is not a legal obligation of the Conference, but is an obligation of the United Methodist Church. While the unfunded liability is computed for each conference, the pension plan does not require a conference to fund its liability and the plan does not provide recourse against a conference that fails to fund its liability. However, each conference is required to complete an annual financial plan that determines the funding sources available to retire any deficits and meet current year obligations.

The risks of participating in a multi-employer defined benefit pension plans are different from single-employer plans in the following respects:

- Assets contributed to the multiemployer plan by one employer may be used to provide benefits to employees of other participating employers.
- If a participating employer stops contributing to the plan, the unfunded obligations of the plan may be required to be borne by the remaining participating employers.
- If the Conference chooses to stop participating in one of its multiemployer plans, it may be required to pay a withdrawal liability to the plan.

Contributions to the various plans during the year ended December 31, 2016 were as follows:

Pre-82	\$ 1,126,113
CRSP - Defined Benefit	<u>2,298,700</u>
	<u>\$ 3,424,813</u>

CONFERENCE TREASURER OF  
HOLSTON ANNUAL CONFERENCE OF  
THE UNITED METHODIST CHURCH, INCORPORATED

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

(continued)

December 31, 2016

As church plans, all pension plans the Conference participates in are exempt from Titles I and IV of the Employee Retirement Income Security Act of 1974 and, therefore, not subject to Pension Benefit Guaranty Corporation requirements. The plans may be terminated by the sponsor at any time. Upon termination of these plans, the sponsor has the authority to distribute the plan assets in accordance with the terms of the respective plan documents.

Following is funding information related to the three plans based on the actuarial valuations performed as of January 1, 2016 to establish contribution rates for the year ending December 31, 2016. Because the Conference controls some aspects that affect funding levels of the Pre-82 Plan, an actuarial valuation to determine conference-specific contributions and therefore information presented below represents only the Conference's portion of the Pre-82 plan's assets, liability and funded status. The MPP and CRSP-Defined Benefit plan information is not obtained on a conference specific basis and the amounts reported below cover the entire plan and all participating conferences.

	Pre-82	MPP	CRSP -- DB
Actuarial value of assets	\$ 20,386,808	\$ 3,600,174,516	\$ 1,530,170,830
Funding liability	<u>(30,396,999)</u>	<u>(3,422,875,264)</u>	<u>(1,422,046,473)</u>
Funded status	\$ (10,010,191)	\$ 177,299,252	\$ 108,124,357
Funded ratio	67%	105%	108%

CONFERENCE TREASURER OF  
HOLSTON ANNUAL CONFERENCE OF  
THE UNITED METHODIST CHURCH, INCORPORATED

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
(continued)

December 31, 2016

**NOTE J - POSTRETIREMENT BENEFITS**

The Conference has elected to provide medical and dental benefits to eligible retired employees, their spouses and dependents. To be eligible a retiree must have attained the age of 55 and must have participated in the Conference health insurance program for the 10 years immediately preceding retirement, and be covered by the Conference insurance program at the time of retirement. Pastors and their dependents who qualify under these conditions must contribute to the cost of this benefit. The Conference contributes between \$156 and \$1,695 annually to the cost of this benefit dependent upon the years served by the pastor and contributes between \$1,482 and \$2,251 annually for surviving spouses (also based on years of service). At December 31, 2016 the unfunded postretirement benefit obligation liability amount was \$16,460,103. Beginning on January 1, 2016, the Conference limited its contributions on behalf of retirees to a fixed dollar amount rather than a percentage of the estimated benefit. This resulted in a decrease in the post retirement benefit obligation of approximately \$7.8 million which is reported in the statement of activities as healthcare expenses.

The change in accumulated postretirement benefit obligation for the year ended December 31, 2015 was:

Active employees not fully eligible to retire	\$ 7,693,272	
Active employees fully eligible to retire	9,521,274	
Retirees	<u>11,207,558</u>	
Unfunded postretirement benefit obligation at January 1, 2016		28,422,104
Current year activity:		
Service cost	\$ 310,593	
Interest cost	1,102,266	
Adjustments	(7,864,443)	
Actuarial gain	(4,225,795)	
Benefits paid	<u>(1,284,622)</u>	<u>(11,962,001)</u>
Unfunded postretirement benefit obligation at December 31, 2016		<u>\$ 16,460,103</u>

CONFERENCE TREASURER OF  
HOLSTON ANNUAL CONFERENCE OF  
THE UNITED METHODIST CHURCH, INCORPORATED

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

(continued)

December 31, 2016

The unfunded postretirement benefit obligation consists of:

Active employees not fully eligible to retire	\$ 1,642,219
Active employees fully eligible to retire	2,707,194
Retirees	<u>12,110,690</u>
	<u>\$ 16,460,103</u>

The unfunded postretirement benefit obligation at December 31, 2016 is \$16,460,103 of which, \$1,327,619 is a current liability and \$15,132,484 is a noncurrent liability. Unrecognized amounts and amortization amounts in the following year consist of prior service cost. A medical trend rate of 7.0% is anticipated during the year ended December 31, 2016 and an ultimate trend rate of 5% is anticipated to be achieved by the year ending December 31, 2019. The discount rate used to value the end of year accumulated postretirement benefit obligation is 6%.

Estimated future benefit payments, net of employee contributions, are:

<u>Year Ending December 31,</u>	<u>Estimated net payment</u>
2017	\$ 1,327,619
2018	1,373,104
2019	1,410,476
2020	1,386,391
2021	1,370,226
2022 to 2027	7,497,671

For nonfunded plans, employer contributions equal benefit payments for the next fiscal year.

These estimates are based on facts as they existed as of December 31, 2016. Historically, these benefits have been provided; however, the Conference could elect to change the level of future benefits. Beginning on January 1, 2016, the Conference's contributions are no longer based on a percentage of the estimated cost of benefits; instead, the Conference will contribute a fixed dollar amount toward retiree benefits dependent on years of service.



CONFERENCE TREASURER OF  
HOLSTON ANNUAL CONFERENCE OF  
THE UNITED METHODIST CHURCH, INCORPORATED

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

(continued)

December 31, 2016

**NOTE K - EPISCOPAL OFFICE FUNDS**

Effective January 1, 2006, the Conference administered the financial affairs for the Episcopal Office of the Holston Conference. Prior to that date, revenue and expenses were accounted for by that office and reported independently of the Conference. The following is a summary of activity for the Episcopal Office for the years ended December 31, 2016 and 2015:

	2016	2015
Net assets at the beginning of the year	\$ 99,566	\$ 86,650
Received from General Council	82,900	81,400
Expenses:		
Salaries and related expenses	\$ 44,983	\$ 43,243
Occupancy	6,996	6,996
Staff travel	6,873	3,236
Professional entertainment	1,669	9,457
Office expenses	1,819	1,402
Other	2,661	4,150
	65,001	68,484
Net assets at the end of the year	<u>\$ 117,465</u>	<u>\$ 99,566</u>

**NOTE L - ENDOWMENT**

The Conference maintains ten individual funds that have been established for the benefit of various ministries of the Conference. Its endowment includes both donor-restricted funds and funds designated by the Conference Council on Finance and Administration (CCFA) to function as endowments. Net assets associated with endowment funds, including funds designated by the CCFA to function as endowments, are classified and reported based on the existence or absence of donor imposed restrictions.

CONFERENCE TREASURER OF  
HOLSTON ANNUAL CONFERENCE OF  
THE UNITED METHODIST CHURCH, INCORPORATED

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

(continued)

December 31, 2016

Interpretation of Relevant Law

CCFA, with the assistance of the Holston Conference Foundation, has interpreted the State Prudent Management of Institutional Funds Act (SPMIFA) as requiring 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. As a result of this interpretation, the Conference classifies as permanently restricted net assets: (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily net assets until those amounts are appropriated for expenditure by CCFA in a manner consistent with the standard of prudence prescribed by SPMIFA. In accordance with SPMIFA, CCFA considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds: (1) the duration and preservation of various funds, (2) the purposes of the donor-restricted endowment funds, (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 Conference, and (8) the Conference's investment policies.

Spending Policy

CCFA has a policy of appropriating for distribution each year 0% to 5% of its endowment fund's average fair value of the prior 3 years through the calendar year-end preceding the fiscal year in which the distribution is planned. In establishing this policy, CCFA considered the long-term expected return on its investment assets, the nature and duration of the individual endowment funds, many of which must be maintained in perpetuity because of donor restrictions, and the possible effects of inflation. CCFA expects the current spending policy to allow its endowment funds to grow at a nominal average rate of 3% annually, which is consistent with CCFA's objective to maintain the purchasing power of the endowment assets as well as to provide additional real growth through investment return.

CONFERENCE TREASURER OF  
HOLSTON ANNUAL CONFERENCE OF  
THE UNITED METHODIST CHURCH, INCORPORATED

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

(continued)

December 31, 2016

Investment Return Objective, Risk Parameters and Strategies

The Conference has adopted investment and spending policies approved by CCFA, for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment funds while also maintaining the purchasing power of those endowment assets over the long-term. Accordingly, the investment process seeks to achieve an after-cost total real rate of return, including investment income as well as capital appreciation, which exceeds the annual distribution with acceptable levels of risk. Endowment assets are invested in a well diversified asset mix, which includes equity and debt securities that are intended to result in a consistent inflation-protected rate of return that has sufficient liquidity to make an annual distribution of 0% to 5% of a three year market value average, while growing the funds if possible. Investment risk is measured in terms of the total endowment fund; investment assets and allocation between asset classes and strategies are managed to not expose the fund to unacceptable levels of risk.

Strategies Employed for Achieving Objectives

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

Spending Policy and How the Investment Objectives Relate to Spending Policy

The Conference has a policy of appropriating for distribution each year 0 to 5% of its average endowment fund's average fair value of the prior 3 years through the calendar year-end proceeding the fiscal year in which the distribution is planned. In establishing this policy, the Conference considered the long-term expected return on its investment assets, the nature and duration of the individual endowment funds, (many of which must be maintained in perpetuity because of donor restrictions), and the possible effects of inflation. The Conference expects the current spending policy to allow its endowment funds to grow at an average rate of 3% annually, which is consistent with the Conference's objective to maintain the purchasing power of the endowment assets as well as to provide additional real growth through investment return.

CONFERENCE TREASURER OF  
HOLSTON ANNUAL CONFERENCE OF  
THE UNITED METHODIST CHURCH, INCORPORATED

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
(continued)

December 31, 2016

Changes in endowment net assets for the year ended December 31, 2016 were as follows:

	<u>Donor-Restricted Endowments</u>		<u>Board- Designated Endowments</u>	<u>Totals</u>
	<u>Permanently Restricted</u>	<u>Temporarily Restricted</u>	<u>Unrestricted</u>	
Endowment net assets at the beginning of the year	\$ 107,710	\$ 1,404,421	\$ 7,899,184	\$ 9,411,315
Contributions	0	1,300	0	1,300
Investment return:				
Investment income	0	27,099	30,910	58,009
Net realized and unrealized gain	0	62,781	615,179	677,960
Other changes:				
Transfers out	<u>0</u>	<u>(54,339)</u>	<u>(1,191,106)</u>	<u>(1,245,445)</u>
Endowment net assets at the end of the year	<u>\$ 107,710</u>	<u>\$ 1,441,262</u>	<u>\$ 7,354,167</u>	<u>\$ 8,903,139</u>

Endowment net assets are presented in the accompanying financial statements as investments.

CONFERENCE TREASURER OF  
HOLSTON ANNUAL CONFERENCE OF  
THE UNITED METHODIST CHURCH, INCORPORATED

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

(continued)

December 31, 2016

**NOTE M - RELATED PARTY NOTES RECEIVABLE - HIWASSEE COLLEGE**

On October 30, 2015, the Conference entered into loan agreements with Hiwassee College, a private college affiliated with the United Methodist Church. The notes receivable at December 31, 2016 consisted of the following:

Note receivable line of credit up to \$1,400,000, only interest of 1.0% due monthly beginning October 30, 2015; principal and any unpaid interest due in full on December 31, 2019, secured by a lien on real property	\$ 1,077,434
--	--------------

No interest payments were received on the notes during the year ended December 31, 2016.

**NOTE N - CONTINGENCIES**

The Conference is primarily self-insured, up to certain limits for health claims. The plan includes all participating Conference employees as well as affiliated congregation clergy. The Conference has purchased stop-loss insurance, which will reimburse the Conference for individual policies that generally exceed \$200,000 annually. Claims are expensed as incurred. The total claims expense under the program was approximately \$11,000,000 for the year ended December 31, 2016 with approximately \$400,000 in claims payable at December 31, 2016.

CONFERENCE TREASURER OF  
HOLSTON ANNUAL CONFERENCE OF  
THE UNITED METHODIST CHURCH, INCORPORATED

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
(continued)

December 31, 2016

**NOTE O - LEASE OBLIGATIONS**

The Conference leases a church building in Sevierville, Tennessee from a local bank under an operating lease expiring February 2018. Minimum future rental payments are as follows:

<u>Year Ending December 31,</u>	
2017	\$ 150,000
2018	12,500

Rent expense related to this lease was \$125,000 for the year ended December 31, 2016.

**NOTE P - SUBSEQUENT EVENTS**

The Conference has evaluated subsequent events through July 21, 2017, the date the consolidated financial statements were available to be issued, and determined that no subsequent events have occurred that require adjustment to or disclosure in the consolidated financial statements.