

**CONNECTIONAL TABLE OF
THE UNITED METHODIST CHURCH**

FINANCIAL STATEMENTS

*As of and for the Years Ended December 31, 2018
and 2017*

And Report of Independent Auditor

**CONNECTIONAL TABLE OF
THE UNITED METHODIST CHURCH
TABLE OF CONTENTS**

REPORT OF INDEPENDENT AUDITOR..... 1

FINANCIAL STATEMENTS

Statements of Financial Position.....2
Statements of Activities3
Statements of Functional Expenses4-5
Statements of Cash Flows6
Notes to the Financial Statements7-12

Report of Independent Auditor

The Board of Directors
Connectional Table of The United Methodist Church
Chicago, Illinois

To Committee on Audit and Review
The General Council on Finance and Administration of
The United Methodist Church
Nashville, Tennessee

We have audited the accompanying financial statements of the Connectional Table of The United Methodist Church (a non-profit organization), which comprise the statements of financial position as of December 31, 2018 and 2017, the related statements of activities, functional expenses, and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these 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 financial statements are free from material misstatement.

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Connectional Table of The United Methodist Church as of December 31, 2018 and 2017, and the changes in its net assets and cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Cherry Bekaert LLP

Charlotte, North Carolina
May 14, 2019

**CONNECTIONAL TABLE OF
THE UNITED METHODIST CHURCH
STATEMENTS OF FINANCIAL POSITION**

DECEMBER 31, 2018 AND 2017

	<u>2018</u>	<u>2017</u>
ASSETS		
Due from GCFA short-term pooled investment fund	\$ 312,983	\$ 428,901
Prepaid expenses	1,836	3,339
Total Assets	<u>\$ 314,819</u>	<u>\$ 432,240</u>
LIABILITIES AND NET ASSETS		
Liabilities:		
Accounts payable	\$ 18,802	\$ 13,978
Accrued liabilities	7,218	9,718
Total Liabilities	<u>26,020</u>	<u>23,696</u>
Net Assets:		
Without Donor Restrictions:		
Undesignated	<u>288,799</u>	<u>408,544</u>
Total Net Assets	<u>288,799</u>	<u>408,544</u>
Total Liabilities and Net Assets	<u>\$ 314,819</u>	<u>\$ 432,240</u>

**CONNECTIONAL TABLE OF
THE UNITED METHODIST CHURCH
STATEMENTS OF ACTIVITIES**

YEARS ENDED DECEMBER 31, 2018 AND 2017

	<u>2018</u>	<u>2017</u>
Revenue without Donor Restrictions:		
Allocation from World Service Fund	\$ 545,664	\$ 535,092
Services received from GCFA	14,648	28,127
Benefit Trust distribution	34,489	31,115
Interest income from GCFA short-term pooled investment fund	4,356	18,641
Total Revenue without Donor Restrictions	<u>599,157</u>	<u>612,975</u>
Expenses:		
Program Services:		
Services for meetings	206,983	182,889
Management and general	511,919	437,789
Total Expenses	<u>718,902</u>	<u>620,678</u>
Change in net assets without donor restrictions	(119,745)	(7,703)
Net assets without donor restrictions, beginning of year	<u>408,544</u>	<u>416,247</u>
Net assets without donor restrictions, end of year	<u>\$ 288,799</u>	<u>\$ 408,544</u>

**CONNECTIONAL TABLE OF
THE UNITED METHODIST CHURCH
STATEMENT OF FUNCTIONAL EXPENSES**

YEAR ENDED DECEMBER 31, 2018

	<u>Program Services</u>	<u>Supporting Services</u>	
	<u>Services for</u>	<u>Management</u>	
	<u>Meetings</u>	<u>and General</u>	<u>Total</u>
Salaries and wages	\$ -	\$ 262,299	\$ 262,299
Employee benefits	-	73,370	73,370
Administration provided by GCFA	-	14,648	14,648
Rent and occupancy	-	19,245	19,245
Building management expense	-	9,095	9,095
Travel and meetings	199,188	58,326	257,514
Staff travel	7,795	-	7,795
Professional fees	-	48,320	48,320
Supplies	-	5,615	5,615
Telephone and web service	-	6,707	6,707
Postage, shipping, and freight	-	153	153
Utilities	-	1,095	1,095
Repairs and maintenance	-	5,279	5,279
Insurance	-	6,252	6,252
Other expense	-	1,515	1,515
Total Expenses	<u>\$ 206,983</u>	<u>\$ 511,919</u>	<u>\$ 718,902</u>

The accompanying notes to the financial statements are an integral part of this statement.

**CONNECTIONAL TABLE OF
THE UNITED METHODIST CHURCH
STATEMENT OF FUNCTIONAL EXPENSES**

YEAR ENDED DECEMBER 31, 2017

	<u>Program Services</u>	<u>Supporting Services</u>	
	<u>Services for</u>	<u>Management</u>	
	<u>Meetings</u>	<u>and General</u>	<u>Total</u>
Salaries and wages	\$ -	\$ 248,256	\$ 248,256
Employee benefits	-	74,096	74,096
Administration provided by GCFA	-	28,127	28,127
Equipment	-	333	333
Rent and occupancy	-	18,923	18,923
Building management expense	-	10,324	10,324
Travel and meetings	145,667	19,363	165,030
Staff travel	8,697	-	8,697
Professional fees	24,944	7,346	32,290
Interpretation services	3,258	-	3,258
Supplies	-	2,677	2,677
Telephone and web service	323	6,283	6,606
Postage, shipping, and freight	-	14	14
Utilities	-	1,072	1,072
Repairs and maintenance	-	2,218	2,218
Insurance	-	17,288	17,288
Promotional and information material	-	73	73
Other expense	-	1,396	1,396
Total Expenses	<u>\$ 182,889</u>	<u>\$ 437,789</u>	<u>\$ 620,678</u>

The accompanying notes to the financial statements are an integral part of this statement.

**CONNECTIONAL TABLE OF
THE UNITED METHODIST CHURCH
STATEMENTS OF CASH FLOWS**

YEARS ENDED DECEMBER 31, 2018 AND 2017

	<u>2018</u>	<u>2017</u>
Cash flows from operating activities:		
Change in net assets	\$ (119,745)	\$ (7,703)
Change in assets and liabilities:		
Due from GCFA short-term pooled investment fund	115,918	5,334
Accounts receivable	-	870
Prepaid expenses	1,503	(1,925)
Accounts payable	4,824	5,522
Accrued liabilities	(2,500)	(2,098)
Net cash flows from operating activities	<u>-</u>	<u>-</u>
Net change in cash and cash equivalents	-	-
Cash and cash equivalents, beginning of year	<u>-</u>	<u>-</u>
Cash and cash equivalents, end of year	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>

CONNECTIONAL TABLE OF THE UNITED METHODIST CHURCH NOTES TO THE FINANCIAL STATEMENTS

DECEMBER 31, 2018 AND 2017

Note 1—Nature of the organization

As stated in *The Book of Discipline of The United Methodist Church*, “the purpose of Connectional Table (“CT”) is for the discernment and articulation of the vision for the church and the stewardship of the mission, ministries, and resources of The United Methodist Church (the “Church”) as determined by the actions of the General Conference and in consultation with the Council of Bishops. As part of the total mission of the Church, CT is to serve as a steward of the vision and resources for mission and ministry, provide fiscal responsibility, and establish policies and procedures to carry out the mission of the Church.”

Funding for CT’s operations is significantly provided by allocations received from the General Funds of The United Methodist Church based on a four-year budget developed from projections of expected program costs and from specified grants to be administered by CT. For the years ended December 31, 2018 and 2017, these allocations accounted for 91% and 87%, respectively, of CT’s total revenue. CT’s continued existence is partially dependent upon the Church’s future support. The Church’s future support is dependent upon contributions from its congregations (i.e., congregational participation in the apportionment covenant).

Note 2—Summary of significant accounting policies

The financial statements have been prepared on the accrual basis of accounting. CT’s significant accounting policies are described below:

Basis of Presentation – To ensure the observance of limitations and restrictions placed on the use of resources, CT maintains its accounts in accordance with the principles and practices of fund accounting. Fund accounting is the procedure by which resources for various purposes are classified into funds that are in accordance with activities or objectives of CT. Separate accounts are maintained for each fund.

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

Net Assets without Donor Restrictions – Net assets that are not subject to donor-imposed restrictions and may be expended for any purpose in performing the primary objectives of CT. These net assets may be used at the discretion of CT’s management and the board of directors. CT has chosen to provide further classification information about net assets without donor restrictions on the statements of financial position. The sub classifications are as follows:

Board-Designated – Represents resources set aside by the board of directors to be used for specific activities within guidelines established by the board of directors. CT had no net assets that were board designated as of December 31, 2018 and 2017.

Undesignated – Represents the cumulative net assets without donor restrictions excluding those net assets designated for specific activities.

Net Assets with Donor Restrictions – Net assets subject to stipulations imposed by donors and grantors. Some donor restrictions are temporary in nature; those restrictions will be met by actions of CT or by the passage of time. Other donor restrictions are perpetual in nature, where by the donor has stipulated the funds be maintained in perpetuity. CT had no net assets with donor restrictions at December 31, 2018 and 2017.

**CONNECTIONAL TABLE OF
THE UNITED METHODIST CHURCH
NOTES TO THE FINANCIAL STATEMENTS**

DECEMBER 31, 2018 AND 2017

Note 2—Summary of significant accounting policies (continued)

Donor restricted contributions are reported as increases in net assets with donor restrictions. When a restriction expires, net assets are reclassified from net assets with donor restrictions to net assets without donor restrictions in the statements of activities.

Revenue is reported as increases in net assets without donor restrictions unless use of the related assets is limited by donor-imposed restrictions. Expenses are reported as decreases in net assets without donor restriction. Gains and losses on investments and other assets or liabilities are reported as increases or decreases in net assets without donor restrictions unless their use is restricted by explicit donor stipulation or by law. Expirations of temporary restrictions on net assets are reported as reclassifications from net assets with donor restrictions to net assets without donor restrictions.

Services Received from Personnel of an Affiliate – Services received from personnel of the General Council on Finance and Administration (“GCFA”) for which GCFA does not charge CT have been measured at the cost recognized by GCFA in providing those services. The revenue and expense relating to those services received are presented in the related party Note 4 and totaled \$14,648 and \$28,127 for the years ended December 31, 2018 and 2017, respectively.

Use of Estimates – Management of CT has made estimates and assumptions relating to the reporting of assets and liabilities at the date of the financial statements, and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

Due from GCFA Short-Term Pooled Investment Fund – The amounts presented as due from GCFA short-term pooled investment fund in the accompanying financial statements represent CT’s portion of the short-term investment portfolio managed by GCFA on behalf of certain agencies and related organizations of the Church. The amount due from this fund effectively represents the amount of cash deposits that are available to CT to be disbursed out of GCFA’s centralized cash management system. Since these deposits are legally invested in GCFA’s name and not in a separate demand account in CT’s name, they are not classified as cash and cash equivalents, but rather are considered an amount due from GCFA. The short-term investment portfolio includes funds invested in demand deposits, corporate bonds, taxable municipal bonds, mutual funds, and notes from other United Methodist organizations. GCFA allocates interest earned on the portfolio to the participating entities. For the years ended December 31, 2018 and 2017, GCFA allocated \$4,356 and \$18,641 of interest income, respectively, to CT. While interest income can be earned based on the performance of the pooled investment funds, CT believes there is little to no risk exposure to losses due to the relationship with GCFA and policy under which the pooled funds are invested. The operating cash requirements of the general agencies are centrally managed by GCFA.

**CONNECTIONAL TABLE OF
THE UNITED METHODIST CHURCH
NOTES TO THE FINANCIAL STATEMENTS**

DECEMBER 31, 2018 AND 2017

Note 2—Summary of significant accounting policies (continued)

When an agency has surplus funds, they are invested by GCFA in the short-term pooled investment fund. GCFA allocates interest earned to the agencies invested in the pool based upon their pro-rata share of the pool on a monthly basis. The overall return for the short-term pooled investment fund for the years ended December 31, 2018 and 2017 was 1.14% and 4.38%, respectively. The overall rate of return for each agency may vary due to fluctuating balances throughout the year and the timing of investment gains and losses. The allocation of funds in the short-term investment pool as of December 31, 2018 and 2017 were as follows:

	<u>2018</u>	<u>2017</u>
Texas Methodist Foundation loan fund	19.5%	20.5%
Mutual funds	2.0%	2.5%
Short-term collateralized loan fund	0.4%	0.4%
Fixed income	20.9%	9.0%
Corporate bonds	47.1%	47.0%
Cash	10.1%	20.6%
	<u>100%</u>	<u>100%</u>

Equipment – Equipment is recorded at cost, less accumulated depreciation. Depreciation is computed using the straight-line method with a modified half-year convention over estimated useful lives of three years for computer equipment and five years for furniture and office equipment. The modified half-year convention treats property placed in service or retired during the first half of the year as being made on the first day of the year. Thus, a full-year's depreciation under this method is allowed on property placed in service in the first six months, and no depreciation is allowed on property placed in service in the second six months. CT capitalizes assets with a cost greater than \$1,000.

Functional Expenses – The costs of providing program and other activities have been summarized on a functional basis in the statements of activities.

Income Taxes – CT is covered under GCFA's group determination letter from the Internal Revenue Service indicating that it is a nonprofit corporation and, except for taxes pertaining to unrelated business income, is exempt from federal and state income taxes under Section 501(c)(3) of the Internal Revenue Code (the "Code"). CT is also exempt from filing a form 990 due to its affiliation with a religious organization as described in Section 509(a) of the Code.

CT accounts for the effect of any uncertain tax positions based on a more likely than not threshold to the recognition of the tax positions being sustained based on the technical merits of the position under examination by the applicable taxing authority. If a tax position or positions are deemed to result in uncertainties of those positions, the unrecognized tax benefit is estimated based on a cumulative probability assessment that aggregates the estimated tax liability for all uncertain tax positions. Tax positions for CT include, but are not limited to, the tax-exempt status and determination of whether income is subject to unrelated business income tax.

**CONNECTIONAL TABLE OF
THE UNITED METHODIST CHURCH
NOTES TO THE FINANCIAL STATEMENTS**

DECEMBER 31, 2018 AND 2017

Note 2—Summary of significant accounting policies (continued)

Future Pronouncements – In February 2016, the Financial Accounting Standards Board issued Accounting Standards Update (“ASU”) 2016-02, *Leases (Topic 842)*. The guidance in this ASU supersedes the leasing guidance in Topic 840, *Leases*. Under the new guidance, lessees are required to recognize lease assets and lease liabilities on the statement of financial position for all leases with terms longer than 12 months. Leases will be classified as either finance or operating, with classifications affecting the pattern of expense recognition in the statement of activities. The new standard is effective for fiscal years beginning after December 15, 2019. A modified retrospective transition approach is required for lessees for capital and operating leases existing at, or entered into after, the beginning of the earliest comparative period presented in the financial statements, with certain practical expedients available. Management is currently evaluating the impact the pending adoption will have on CT’s financial statements.

The FASB issued ASU 2018-08, *Not-for-Profit Entities (Topic 958) – Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*. This ASU clarifies and improves the scope and the accounting guidance for contributions received and contributions made. This ASU is effective for annual periods beginning after June 15, 2018. CT is currently in the process of evaluating the impact that this pronouncement will have on its consolidated financial statements.

Note 3—Liquidity and availability of resources

The table below represents financial assets available for general expenditures within one year at December 31, 2018 and 2017:

	<u>2018</u>	<u>2017</u>
Financial assets at year end:		
Due from GCFA short-term pooled investment fund	\$ 312,983	\$ 428,901
Less amounts not available to be used for general expenditures within one year:		
Financial assets not available to be used within one year	-	-
Financial assets available to meet general expenditures within one year	<u>\$ 312,983</u>	<u>\$ 428,901</u>

As part of CT’s liquidity management plan, it structures its financial assets to be available as its obligations come due. Cash in excess of daily requirements are invested in GCFA’s short-term pooled investment fund. This fund established by CT may be drawn upon, if necessary, to meet unexpected liquidity needs.

**CONNECTIONAL TABLE OF
THE UNITED METHODIST CHURCH
NOTES TO THE FINANCIAL STATEMENTS**

DECEMBER 31, 2018 AND 2017

Note 4—Related party transactions

CT receives World Service Fund allocations from the General Funds of The United Methodist Church, which are administered by GCFA to support the activities of CT. In addition, GCFA provides various services to CT, such as general ledger processing and maintenance, cash management, and group insurance plan administration.

CT had the following transactions with GCFA:

	<u>2018</u>	<u>2017</u>
Statement of Financial Position:		
Due from GCFA short-term pooled investment fund	\$ 312,983	\$ 428,901
Statement of Activities:		
Revenue:		
Allocation from World Service Fund	545,664	535,092
Services received from GCFA	14,648	28,127
Benefit Trust distribution	34,489	31,115
Interest income from GCFA short-term pooled investment fund	4,356	18,641
Expenses:		
Administration provided by GCFA	14,648	28,127
Group insurance expense	40,862	38,558

Note 5—Employee benefits

Retirement Benefits – CT sponsors the United Methodist Personal Investment Plan (“UMPIP”), a Section 403(b) defined contribution church plan. UMPIP allows each plan sponsor to elect the employer contribution formula. CT makes semi-monthly contributions to each eligible employee’s account held by Wespath Benefits and Investments (“Wespath”) based on 9% of annual employee compensation. Total contributions made by CT during 2018 and 2017 were \$24,444 and \$26,812, respectively.

Health, Life, and Other Employee Benefits – CT provides health, dental, life, and other employee benefits for its active employees and health, dental, and life benefits to retirees through a group plan which qualifies for treatment as a multiemployer plan under Accounting Standards Codification (ASC) 715, *Compensation – Retirement Benefits*. Substantially all retired employees are eligible to participate in the plan if they have attained normal retirement age while in the employ of CT.

The General Agencies of The United Methodist Church Benefit Plan (the “Plan”) provides medical, dental, life, and long- and short-term disability defined benefits to participants of the 11 general agencies, all Bishops covered by the Episcopal Fund, and employees of other United Methodist related organizations. Effective January 1, 2004, Plan amendments were made to change the retiree benefits offered and increase the related premiums paid by retirees.

The Plan’s unfunded accumulated postretirement benefit obligation (APBO) was approximately \$94,500,000 and \$98,600,000 and the Plan’s unfunded expected postretirement benefit obligation (EPBO) was approximately \$131,500,000 and \$148,700,000 as of December 31, 2018 and 2017, respectively.

**CONNECTIONAL TABLE OF
THE UNITED METHODIST CHURCH
NOTES TO THE FINANCIAL STATEMENTS**

DECEMBER 31, 2018 AND 2017

Note 5—Employee benefits (continued)

All of CT's active employees are covered by the Plan. The cost of the benefits is recognized as group insurance expense as premiums are paid. The total cost of benefits for active employees was \$40,862 and \$38,558 for the years ended December 31, 2018 and 2017, respectively.

Wespath has transferred certain excess pension assets to the General Agency Benefit Trust ("Benefit Trust") established by the 1996 General Conference as of December 31, 1996. Annually, the Benefit Trust allows a stated percentage, 6% for 2018 and 2017, of the fair value of the Benefit Trust's assets at year-end to be available for distribution in the subsequent year in order to reimburse the participating agencies, through GCFA, for their funding of active and retiree employee benefits. The fair value of the Benefit Trust's assets (not plan assets) was approximately \$146,625,000 and \$165,800,000 as of December 31, 2018 and 2017, respectively. The total amount available for reimbursement in 2018 and 2017 was \$9,948,300 and \$8,957,614, respectively, of which CT's share, excluding retiree health benefits, was \$34,489 and \$31,115 received in 2018 and 2017, respectively.

Note 6—Leases

CT leases office space under an operating lease agreement, which expires in December 2020. Rent expense for the operating lease, which began on February 1, 2013, totaled \$19,245 and \$18,923 for the years ended December 31, 2018 and 2017, respectively. Future minimum rental commitments are as follows:

Year Ending December 31:

2019	\$ 19,575
2020	19,575
	<u>\$ 39,150</u>

Note 7—Subsequent events

Management has evaluated subsequent events through May 14, 2019, the date the financial statements were available for issuance, and has determined that there are no subsequent events requiring disclosure.