

**THE BOARD OF TRUSTEES OF
THE UNITED METHODIST CHURCH**

Financial Statements and Supplemental Information

December 31, 2008 and 2007

(With Independent Auditors' Report Thereon)

**THE BOARD OF TRUSTEES OF
THE UNITED METHODIST CHURCH**

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Independent Auditors' Report

The Board of Trustees of
The United Methodist Church

The Committee on Audit and Review of
The General Council on Finance and Administration of
The United Methodist Church

We have audited the accompanying statements of financial position of The Board of Trustees of The United Methodist Church (the "Board of Trustees") as of December 31, 2008 and 2007, and the related statements of activities and cash flows for the years then ended. These financial statements are the responsibility of the Board of Trustees' management. 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 audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

As discussed in Note 2 of the financial statements, the financial statements being presented are only those of the Board of Trustees of The United Methodist Church and do not include the assets, liabilities, and net assets, and the revenues and expenses that are recorded in the accounts of the General Council on Finance and Administration of The United Methodist Church ("GCFA"). Accordingly, the accompanying financial statements are not intended to present the financial position of the GCFA as of December 31, 2008 and 2007, in conformity with accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Board of Trustees of The United Methodist Church as of December 31, 2008 and 2007, and 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 audits were conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplemental information included in Schedule 1 and the Balanced Fund's financial highlight ratios included in Note 3 are presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information, except for the financial highlight ratios in Note 3, which are marked "unaudited" on which we express no opinion, has been subjected to the auditing procedures applied in the audits of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Crosslin & Associates, P.C.

May 20, 2009
Nashville, Tennessee

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Statements of Financial Position

December 31, 2008 and 2007

Assets	2008	2007
Cash	\$ 96,584	104,194
Accounts receivable	1,669	—
Accrued royalties	—	4,164
Investment in GCFA short-term pooled investment fund	715,439	727,885
Investments, at fair value (Note 3)	12,168,199	16,467,978
Interest in oil and mineral rights	1	1
Total assets	\$ 12,981,892	17,304,222
Liabilities and Net Assets		
Liabilities:		
Accounts payable	\$ 10,152	50,759
Due to beneficiaries	137,962	85,340
Funds held for others	12,166,308	16,519,855
Total liabilities	12,314,422	16,655,954
Net assets – unrestricted	667,470	648,268
Total liabilities and net assets	\$ 12,981,892	17,304,222

See accompanying notes to financial statements.

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Statements of Activities

Years ended December 31, 2008 and 2007

	<u>2008</u>	<u>2007</u>
Revenue, not related to participants:		
Interest income	\$ 11,691	37,479
Other income	31,648	—
	<u>43,339</u>	<u>37,479</u>
Expenses, not related to participants:		
Personnel expenses	<u>24,137</u>	<u>7,589</u>
Change in net assets	19,202	29,890
Net assets at beginning of year	<u>648,268</u>	<u>618,378</u>
Net assets at end of year	<u><u>\$ 667,470</u></u>	<u><u>648,268</u></u>

See accompanying notes to financial statements.

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Statements of Cash Flows

Years ended December 31, 2008 and 2007

	2008	2007
Cash flows from operating activities:		
Change in net assets	\$ 19,202	29,890
Adjustments to reconcile change in net assets to net cash (used in) provided by operating activities:		
Change in assets and liabilities:		
Accounts receivable	(1,669)	—
Other receivables	4,164	(4,164)
Accounts payable	(40,607)	15,607
Net cash (used in) provided by operating activities	(18,910)	41,333
Cash flows from investing activities:		
Net (decrease) increase in funds held for others	(4,353,547)	457,044
Change in market value of investments, excluding sale of investments for distributions	3,714,764	(1,008,156)
Sale of investments for distributions	585,015	550,946
Proceeds from sale of land	—	33,702
Change in due to beneficiaries	52,622	6,149
Investment in GCFA short-term pooled investment fund	12,446	(99,782)
Net cash provided by (used in) investing activities	11,300	(60,097)
Net change in cash	(7,610)	(18,764)
Cash at beginning of year	104,194	122,958
Cash at end of year	\$ 96,584	104,194

See accompanying notes to financial statements.

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Notes to Financial Statements

December 31, 2008 and 2007

(1) Nature of the Organization

The objective and duty of The Board of Trustees of The United Methodist Church (the Board of Trustees) “shall be to receive, collect, and hold in trust for the benefit of The United Methodist Church any and all donations, bequests, and devises of any kind or character, real or personal, that may be given, devised, bequeathed, or conveyed unto said board or to The United Methodist Church as such for any benevolent charitable, or religious purpose, and to administer the same and the income therefrom in accordance with the directions of the donor, trustor, or testator, and in the interests of the church, society, institution, or agency contemplated by such donor, trustor, or testator under the direction of the General Conference” (§1512 *1968 Book of Discipline of The United Methodist Church*). The General Council on Finance and Administration (GCFA), so far as may be legal, shall be the successor in trust of The Board of Trustees of The United Methodist Church (§803 *2008 Book of Discipline of The United Methodist Church*).

Pursuant to action of the General Conference during 2004, the General Council on Ministries (GCOM) was dissolved and the net assets transferred to the Board of Trustees of The United Methodist Church effective December 31, 2004.

(2) Summary of Significant Accounting Policies

(a) Basis of Presentation

To ensure the observance and limitations on the use of resources, the Board of Trustees 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 the Board of Trustees. Separate accounts are maintained for each fund.

For reporting purposes, however, the Board of Trustees’ financial statements have been prepared to focus on the organization as a whole, and to present balances and transactions classified based upon the existence or absence of donor-imposed restrictions. Accordingly, net assets and changes therein are classified and reported into three net asset categories as follows:

Unrestricted – Net assets that are not subject to donor-imposed restrictions. Items that affect this net asset category are attributable to the transfer of net assets from GCOM and subsequent related activity.

Temporarily restricted – Net assets subject to restrictions that will be met either by actions of the Board of Trustees or the passage of time. The Board of Trustees does not have any temporarily restricted net assets at December 31, 2008 or 2007.

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Permanently restricted – Net assets subject to restrictions which require them to be maintained permanently by the Board of Trustees. The Board of Trustees does not have any permanently restricted net assets at December 31, 2008 and 2007.

These financial statements do not include the amounts of GCFA, except insofar as financial transactions have taken place between the Board of Trustees and GCFA. GCFA is a separate corporation under civil law and it is an operating entity distinct from the Board of Trustees, maintains separate accounts, carries on its own services and programs, and reports annually to its constituency.

(b) Revenue

Revenue from sources other than temporarily restricted funds is reported as an increase in unrestricted net assets. Expenses are reported as decreases in unrestricted net assets. Gains and losses on investments and other assets or liabilities are reported as increases or decreases in unrestricted net assets, unless their use is restricted by explicit stipulation or law.

Private gifts, including unconditional pledges, are recognized as revenue in the period received. Conditional pledges are recognized when the conditions on which they depend are substantially met. Contributions of assets other than cash are recorded at their estimated fair value at the date of gift. Contributions to be received after one year are discounted at an appropriate discount rate commensurate with the risks involved. Amortization of discount is recorded as additional contribution revenue in accordance with donor-imposed restrictions, if any, on the contributions. An allowance for uncollectible pledges receivable is provided based upon management's judgment, considering such factors as prior collection history, type of contribution, and nature of fund-raising activity.

(c) Investments

The Board of Trustees is a participant investor, placing its investment funds with The United Methodist Church Foundation (the Foundation) for their management. The Foundation has established, for accounting purposes, an initial unit value for an accounting unit of the participants' accounts based on the participants' net assets divided by the unit value. At all times, the total value of the participants' net assets divided by the total of all participants' units will equal the unit value. The unit value of the net assets will be determined on each valuation date. The valuation date is the last business day of each calendar month. The valuation of the participants' accounts is based on the fair value of the investments as of the valuation date. The underlying investments in stocks and bonds are carried at fair value based primarily on quoted market prices. Purchases and sales of investments are recorded on the trade date. Dividend income is recorded on the ex-dividend date. Interest income is recognized on the accrual basis.

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The amount due from GCFA consists of the Board of Trustees' portion of the short-term investment portfolio managed by GCFA on behalf of certain general agencies and related organizations and is stated at fair value. GCFA allocates interest earned on such short-term investments to the general agencies and related organizations. Interest income earned from GCFA on these funds totaled \$11,691 and \$37,479 for 2008 and 2007, respectively.

(d) *Funds Held for Others*

Funds held for others consist of funds received on the behalf of other United Methodist organizations. For accounting purposes, an initial unit value has been established by the Board of Trustees. The investment pool assigns units to participants based on the participants' net assets divided by the unit value. At all times, the total value of the investment pool's net assets divided by the total of all participants' units will equal the unit value. Participant investments received since the prior valuation date are divided by current unit value to determine the number of units that will be allocated to the participant's account.

(e) *Distribution*

The Board of Trustees utilizes the total return concept in distributing investment income. In accordance with the fund's total return objective, an amount equal to 4%, in 2008 and 2007, of a 20-quarter rolling average of total market value is available for expenditure in the form of an investment payout.

(f) *Interest in Oil and Mineral Rights*

The interest in oil and mineral rights for the estates managed by the Board of Trustees is carried in the financial statements at a nominal value of \$1. A true fair value estimate cannot be made without incurring excessive valuation costs. Royalty income related to these interests has been recorded net of property taxes as a liability to the beneficiary organizations and is reflected as funds held for others in the statements of financial position.

(g) *Use of Estimates*

The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of income and expenses during the period. Actual results could differ from those estimates.

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(3) Investments

All investments are placed with The United Methodist Church Foundation Balanced Investment Fund (the Balanced Fund). The Foundation's investments in marketable securities at December 31, 2008 and 2007 consist of the following:

	2008		2007	
	Fair value	Cost	Fair value	Cost
Common stock	\$ 31,680,887	45,316,033	57,972,132	53,218,768
Corporate bonds	15,733,979	17,253,649	14,876,968	15,117,710
U.S. treasuries and agencies	6,520,661	6,257,868	10,110,022	9,738,245
Cash & cash equivalents	5,593,963	5,593,963	4,402,807	4,377,399
	<u>\$ 59,529,490</u>	<u>74,421,513</u>	<u>87,361,929</u>	<u>82,452,122</u>
Portion applicable to the Board of Trustees	<u>\$ 12,168,199</u>	<u>14,904,384</u>	<u>16,467,978</u>	<u>15,403,911</u>

The following table summarizes the Balanced Fund's financial highlight ratios as of December 31, 2008 and 2007. The yield information presented was taken from reports provided to The United Methodist Church Foundation by its third party investment consultant and was not included in the scope of the Board of Trustees' audit.

	Unaudited	
	2008	2007
Net investment (loss) income to average participants' accounts	(24.43)%	6.30%
Expenses to average participants' accounts	0.79%	0.79%

The Board of Trustees pays the Foundation fees monthly. Fees are calculated at approximately 0.20% of the asset balance.

(4) Related-party Transactions

GCFA performs certain managerial, financial, and clerical duties for the Board of Trustees. No amounts have been reflected in the accompanying financial statements in relation to the donation of these services, as they are not significant to these financial statements.

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(5) Federal Income Tax Exemption

The Board of Trustees operates as a nonprofit corporation and is covered under GCFA's group determination letter from the Internal Revenue Service indicating that it is, except for taxes pertaining to unrelated business income, exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code. The Board of Trustees had no significant unrelated business income during the years ended December 31, 2008 or 2007, and as such, no provision for income taxes has been made.

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Supplemental Information

Schedules of Investment Operations and Changes in Funds Held for Others

Years ended December 31, 2008 and 2007

	<u>2008</u>	<u>2007</u>
Investment income:		
Interest income	\$ 294,581	304,013
Dividend income, net of foreign tax	191,746	182,664
Royalty income, net of property tax (Note 2(f))	45,185	82,539
Other income	—	1,705
Total investment income	<u>531,512</u>	<u>570,921</u>
Investment expenses:		
Investment manager fees	25,041	27,032
Custodian fees	64,093	67,663
UMC Foundation fees	29,221	32,963
Professional fees	6,067	11,770
Total expenses	<u>124,422</u>	<u>139,428</u>
Investment income, net of expenses	<u>407,090</u>	<u>431,493</u>
Net realized (loss) gain on sale of investments	(454,339)	1,093,389
Unrealized losses on investments	<u>(3,800,252)</u>	<u>(439,883)</u>
Net realized/unrealized (loss) gain on investments	<u>(4,254,591)</u>	<u>653,506</u>
Net (losses) income from investment operations	(3,847,501)	1,084,999
Deposits to participants accounts	91,546	—
Less: Annual distributions and liquidations	<u>(597,592)</u>	<u>(627,955)</u>
Total net change	<u>(4,353,547)</u>	<u>457,044</u>
Funds held for others:		
Beginning of the year	<u>16,519,855</u>	<u>16,062,811</u>
End of the year	<u>\$ 12,166,308</u>	<u>16,519,855</u>

See accompanying independent auditors' report.