

WESTERN NORTH CAROLINA CONFERENCE
XII. REPORT OF THE ANNUAL AUDIT 2008

McGladrey & Pullen

Certified Public Accountants

Independent Auditor's Report

To the Council on Finance and Administration
Western North Carolina Conference of
The United Methodist Church
Charlotte, North Carolina

We have audited the accompanying statements of financial position of the Western North Carolina Conference of the United Methodist Church (the "Conference") 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 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.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Western North Carolina Conference 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.

As explained in Note 15 to the financial statements, the Conference has significant relationships with various constituents that were permitted but not required to be consolidated in the financial statements due to the Conference having both control of and an economic interest in those entities. Summary financial information related to those constituents is provided in Note 15 to the financial statements.

As described in Note 7 to the financial statements, the Conference adopted Statement of Financial Accounting Standard No. 158, *Employers' Accounting for Defined Benefit Pension and other Postretirement Plans*, as of December 31, 2007.

McGladrey & Pullen, LLP

Charlotte, North Carolina
May 12, 2009

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Western North Carolina Conference
of The United Methodist Church

Statements of Financial Position
December 31, 2008 and 2007

Assets	2008	2007
Cash	\$ 1,365,813	\$ 4,363,731
Accounts receivable	3,547,358	2,512,376
Investments (Notes 2 and 4)	24,633,380	31,501,958
Loans receivable	100,000	200,000
Contributions receivable from trusts (Notes 3 and 4)	71,990	110,092
Prepaid insurance	76,328	-
Inventory	110,000	43,183
Building, improvements and equipment, net (Note 5)	1,507,792	1,552,589
	<u>\$ 31,412,661</u>	<u>\$ 40,283,929</u>

Liabilities and Net Assets

Accounts payable and accrued expenses	\$ 3,438,890	\$ 4,747,582
Agency liabilities	372,616	573,511
Accrued health benefits	1,356,000	1,259,669
Accrued postretirement benefit obligation (Note 7)	13,308,912	15,315,159
Total liabilities	<u>18,476,418</u>	<u>21,895,921</u>

Commitments and Contingencies (Notes 6, 12, 13, and 15)

Net assets:

Unrestricted	10,178,333	14,967,600
Temporarily restricted (Note 8)	1,432,669	2,095,167
Permanently restricted (Note 9)	1,325,241	1,325,241
Total net assets	<u>12,936,243</u>	<u>18,388,008</u>
	<u>\$ 31,412,661</u>	<u>\$ 40,283,929</u>

See Notes to Financial Statements.

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Western North Carolina Conference
of The United Methodist Church

Statements of Activities
Years Ended December 31, 2008 and 2007

	2008			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Revenues, gains, and other support:				
Apportionment income	\$ 17,394,009	\$ -	\$ -	\$ 17,394,009
Premium income	12,112,993	-	-	12,112,993
Contributions	1,367,566	2,007,438	-	3,375,004
Investment income (Note 2)	717,583	39,220	-	756,803
Net realized gain (loss) on investments (Note 2)	(111,786)	(5,115)	-	(116,901)
Change in unrealized gain (loss) on investments (Note 2)	(7,751,029)	(578,250)	-	(8,329,279)
Change in value of split interest agreement (Note 4)	-	(38,102)	-	(38,102)
Net assets released from restrictions (Note 10)	2,087,689	(2,087,689)	-	-
Total revenues, gains and other support	<u>25,817,025</u>	<u>(662,498)</u>	<u>-</u>	<u>25,154,527</u>
Expenses:				
Grants	1,310,932	-	-	1,310,932
Program disbursements	10,353,991	-	-	10,353,991
Management and general	4,435,783	-	-	4,435,783
Health benefit claims	9,809,300	-	-	9,809,300
Annual conference	334,300	-	-	334,300
Memorial center	286,894	-	-	286,894
General Church expenses	3,975,657	-	-	3,975,657
Total expenses	<u>30,506,857</u>	<u>-</u>	<u>-</u>	<u>30,506,857</u>
Increase (decrease) in net assets from operating activities	<u>(4,689,832)</u>	<u>(662,498)</u>	<u>-</u>	<u>(5,352,330)</u>
Nonoperating:				
Postretirement-related changes other than net periodic postretirement cost (Note 7)	(99,435)	-	-	(99,435)
Increase (decrease) in net assets before effect of adoption of SFAS No. 158	<u>(4,789,267)</u>	<u>(662,498)</u>	<u>-</u>	<u>(5,451,765)</u>
Effect of adoption of SFAS No. 158 (Note 7)	-	-	-	-
Change in net assets	<u>(4,789,267)</u>	<u>(662,498)</u>	<u>-</u>	<u>(5,451,765)</u>
Net assets, beginning	<u>14,967,600</u>	<u>2,095,167</u>	<u>1,325,241</u>	<u>18,388,008</u>
Net assets, ending	<u>\$ 10,178,333</u>	<u>\$ 1,432,669</u>	<u>\$ 1,325,241</u>	<u>\$ 12,936,243</u>

See Notes to Financial Statements.

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Western North Carolina Conference
of The United Methodist Church
Statements of Cash Flows
Years Ended December 31, 2008 and 2007

	2008	2007
Cash Flows from Operating Activities		
Change in net assets	\$ (5,451,765)	\$ 3,852,316
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:		
Depreciation	90,830	89,477
Net realized (gain) loss on investments	116,901	(697,031)
Unrealized (gain) loss on investments	8,329,279	(499,442)
Postretirement-related changes other than net periodic postretirement cost	99,435	-
Changes in assets and liabilities:		
(Increase) decrease in:		
Accounts receivable	(1,034,982)	479,745
Contributions receivable from trusts	38,102	(3,238)
Inventory	(66,817)	140,536
Prepaid insurance	(76,328)	-
Increase (decrease) in:		
Accounts payable and accrued expenses	(1,308,692)	1,336,543
Agency liabilities	(200,895)	(362,254)
Accrued health benefits	96,331	(671,048)
Accrued postretirement benefit obligation	(2,105,682)	(2,380,342)
	<u>(1,474,283)</u>	<u>1,285,262</u>
Net cash provided by (used in) operating activities	(46,033)	(39,803)
Cash Flows from Investing Activities		
Purchase of improvements and equipment	(20,569,528)	(13,138,924)
Proceeds from sale of investments	18,991,926	11,254,666
Loans receivable issued	-	(100,000)
Payments received on loans receivable	100,000	49,929
	<u>(1,523,635)</u>	<u>(1,974,132)</u>
Net cash used in investing activities	(2,997,918)	(688,870)
Net decrease in cash	4,363,731	5,052,601
Cash:		
Beginning	\$ 1,365,813	\$ 4,363,731
Ending	<u>5,729,544</u>	<u>9,416,332</u>
Supplemental Disclosure of Noncash Investing and Financing Activities		
Change in accrued postretirement benefit obligation and change in net assets resulting from adoption of SFAS No. 158	\$ -	\$ 24,076,061

See Notes to Financial Statements.

	2007		Total
	Temporarily Restricted	Permanently Restricted	
\$ 17,486,952	\$ -	\$ -	\$ 17,486,952
10,207,894	-	-	10,207,894
1,970,208	2,525,496	-	4,495,704
809,429	54,058	-	863,487
688,250	8,781	-	697,031
418,043	81,399	-	499,442
-	3,238	-	3,238
2,592,017	(2,592,017)	-	-
34,172,793	80,955	-	34,253,748
1,625,142	-	-	1,625,142
10,231,908	-	-	10,231,908
4,129,691	-	-	4,129,691
9,820,722	-	-	9,820,722
316,560	-	-	316,560
242,035	-	-	242,035
4,035,374	-	-	4,035,374
30,401,432	-	-	30,401,432
3,771,361	80,955	-	3,852,316
24,076,061	-	-	24,076,061
3,771,361	80,955	-	3,852,316
24,076,061	-	-	24,076,061
27,847,422	80,955	-	27,928,377
(12,879,822)	2,014,212	1,325,241	(9,540,369)
\$ 14,967,600	\$ 2,095,167	\$ 1,325,241	\$ 18,388,008

Western North Carolina Conference
of the United Methodist Church

Notes to the Financial Statements

Note 1. Nature of Organization and Significant Accounting Policies

Nature of organization: The Western North Carolina Conference of the United Methodist Church (the "Conference") is a not-for-profit organization representing approximately 1,124 member churches. The Conference provides various services for its member churches including administration of health benefits and retirement plans available to member clergy and lay employees and collection of funds for remittance to various regional, national and global benevolences.

A portion of the funds collected from its member churches is remitted to the General Council on Finance and Administration of the United Methodist Church which provides funds to national and global benevolences. The amounts remitted have been included in the Statement of Activities as "General Church Expenses."

The audit of the Conference includes the funds of the Charlotte Area Episcopal Office.

Principles of consolidation: Generally accepted accounting principles require the Conference to consolidate entities in which it has control and an economic interest, when that control is evidenced through majority ownership or voting interests. Since the Conference has an economic interest in and control of various constituents through means other than majority ownership or voting interests, consolidation is permitted, but not required. Therefore, the Conference has elected not to consolidate the constituents described in Note 15.

The Conference has not recognized any asset in its accounts that represents an interest in the net assets of the unconsolidated entities in accordance with Statement of Financial Accounting Standards ("SFAS") No. 136, *Transfers of Assets to a Not-for-Profit Organization or Charitable Trust That Raises or Holds Contributions for Others*.

A summary of the significant accounting policies follows:

Accrual basis: The financial statements are prepared on the accrual basis in accordance with accounting principles generally accepted in the United States of America.

Basis of presentation: Net assets and revenues, expenses, gains and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, net assets and changes therein are classified and reported as follows:

Unrestricted net assets: Net assets that are not subject to donor-imposed stipulations.

Temporarily restricted net assets: Net assets subject to donor-imposed stipulations that may or will be met either by actions of the Conference and/or the passage of time.

Permanently restricted net assets: Net assets subject to donor-imposed stipulations that must be maintained permanently. Generally, the donors of these assets permit the use of all or part of the income earned on related investments for general or specific purposes.

Donor restricted contributions whose restrictions are met in the same reporting period are reported as temporarily restricted support and as assets released from restriction.

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Western North Carolina Conference
of the United Methodist Church

Notes to the Financial Statements

Note 1. Nature of Organization and Significant Accounting Policies (Continued)

Revenue and support: The principal source of revenue and support is apportionments received from the local churches. Apportionments are the recommended levels of support assigned to local churches. Apportionments expire at the end of each calendar year. Local churches do not have any commitment on the underpayment of their apportionments.

Insurance premiums: The Conference administers a self funded insurance program under which health benefits are provided for clergy and selected lay employees of the Conference. Insurance premiums and related expenses are recorded in the period in which the premium relates.

Cash: At various times throughout the year, cash balances in financial institutions exceed the amounts which are federally insured. The Conference periodically assesses the financial condition of the institutions and believes that the risk of any loss is minimal.

Accounts receivable: Since a significant dollar amount of member church apportionments are received close to year-end, member churches are provided a cut-off date subsequent to year-end in order for churches to fulfill their annual apportionments. Thus, accounts receivable are recognized at the dollar amount of apportionments received by the cut-off date. As such, no allowance for doubtful accounts is necessary.

Investments: Purchased investments are recorded at cost. Investments received by gift are recorded at fair value at the date of donation. The Conference's investments are held with the United Methodist Foundation of Western North Carolina, Inc. (the "Foundation") and the General Board of Pension and Health Benefits of the United Methodist Church (the "Board") under investment agreements wherein the investments are pooled into larger investment funds of the Foundation and the Board. The Conference's investments are valued based on their pro-rata share of the total investment funds. Investment income or loss (including realized and unrealized gains and losses on investments, interest and dividends) is included in the change in unrestricted net assets, unless the income or loss is restricted by the donor.

Board designated investments: The Conference has designated certain investments to function as endowments to fund the Conference's pension and postretirement benefits. These investments follow the investment policy noted above.

Loans receivable: Loans receivables are recognized at the cash value provided to the member church. Interest is calculated at 2% of the outstanding balance. Loans may be converted to grants by the Board of Trustees when it is determined that the member church has satisfied certain requirements associated with the loan.

Building, improvements and equipment: Building, improvements and equipment are stated at cost less accumulated depreciation. Cost of donated building, improvements and equipment is equal to its fair value at the date of its donation. Minor renewals and replacements are expensed when incurred.

Depreciation is computed on a straight-line basis over the estimated economic lives of the respective assets held, which are as follows:

Building and improvements	10 - 40 years
Furniture and equipment	3 - 10 years

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Western North Carolina Conference
of the United Methodist Church

Notes to the Financial Statements

Note 2. Investments (Continued)

The participation in the ownership of the investments at December 31, 2008 and 2007 is as follows:

	2008	2007
Unrestricted undesignated investments	\$ 6,222,456	\$ 7,569,342
Unrestricted Board designated investments	15,653,014	20,512,208
Temporarily restricted net assets	1,432,669	2,095,167
Permanently restricted net assets	1,325,241	1,325,241
	<u>\$ 24,633,380</u>	<u>\$ 31,501,958</u>

Investment income is comprised of the following for the years ended December 31, 2008 and 2007:

	2008	2007
Investment income (net of investment fees 2008 \$142,987; 2007 \$156,735)	\$ 756,803	\$ 863,487
Net realized gain (loss) on investments	(116,901)	697,031
Unrealized gain (loss) on investments	(8,329,279)	499,442
	<u>\$ (7,689,377)</u>	<u>\$ 2,059,960</u>

Note 3. Contributions Receivable from Trusts

The Conference has been named as a beneficiary in a charitable lead trust in which the Conference is not the trustee. When the Conference is notified of a trust, a receivable and contribution revenue are recorded at the present value of the estimated future cash receipts. Discount rates of 2.78% and 4.63% were used to calculate the present value of the estimated future cash receipts of the charitable lead trust at December 31, 2008 and December 31, 2007, respectively.

Note 4. Fair Value of Financial Instruments

Effective January 1, 2008, the Conference adopted the provisions of SFAS 157 for financial assets and financial liabilities. This Statement applies to all financial assets and financial liabilities that are being measured and reported on a fair value basis, and establishes a framework for measuring fair value of assets and liabilities and expands disclosures about fair value measurements. SFAS 157 requires that fair value measurements be classified and disclosed in one of the following three categories:

- Level 1: Financial instruments with unadjusted, quoted prices listed on active market exchanges. The Conference does not have any Level 1 financial instruments as of December 31, 2008.
- Level 2: Financial instruments determined using prices for recently traded financial instruments with similar underlying terms as well as directly or indirectly observable inputs, such as interest rates and yield curves that are observable at commonly quoted intervals. The Conference does not have any Level 2 financial instruments as of December 31, 2008.

Western North Carolina Conference
of the United Methodist Church

Notes to the Financial Statements

Note 4. Fair Value of Financial Instruments (Continued)

Level 3: Financial instruments that are not actively traded on a market exchange. This category includes situations where there is little, if any, market activity for the financial instrument. The prices are determined using significant unobservable inputs or valuation techniques. The Conference's Level 3 assets are held with the Foundation and the Board under investment agreements wherein the investments are pooled into larger investment funds of the Foundation and the Board. The Conference's investments are valued based on their pro-rata share of the total investment funds. The Conference also has a beneficial interest in a charitable lead trust that is maintained by a third party financial institution. The fair value of the Conference's Level 3 investments is \$24,705,370 as of December 31, 2008.

The changes in Level 3 investments are comprised of the following for the year ended December 31, 2008:

	Investments	Contributions Receivable From Trusts
Balance, December 31, 2007	\$ 31,501,958	\$ 110,092
Net realized and unrealized losses, included in change in net assets	(8,446,180)	-
Purchases and sales, net	1,577,602	-
Change in value of contributions receivable from trusts	-	(38,102)
Balance, December 31, 2008	<u>\$ 24,633,380</u>	<u>\$ 71,990</u>
Change in unrealized losses relating to assets still held at December 31, 2008	\$ (8,329,279)	\$ -

Note 5. Building, Improvements and Equipment

The composition of building, improvements and equipment at December 31, 2008 and 2007 is as follows:

	2008	2007
Building and improvements	\$ 2,406,941	\$ 2,406,941
Furniture and equipment	1,117,033	1,071,000
Land	37,915	37,915
	<u>3,561,889</u>	<u>3,515,856</u>
Less accumulated depreciation	2,054,097	1,963,267
	<u>\$ 1,507,792</u>	<u>\$ 1,552,589</u>

Note 6. Retirement Plans

The Conference participates in the Ministers Reserve Pension Fund which is a multi-employer defined benefit pension plan administered by the General Board of Pensions and Health Benefits of the United Methodist Church. The fund covers service prior to 1982 for substantially all clergy and lay pastors. The Board of Pensions of the Conference acts as trustee responsible for deposits with the General Board of Pensions and Health Benefits of the United Methodist Church. The Conference did not make any contributions to the Ministers Reserve Pension Fund in 2008 or 2007 due to the fact the Conference's share of the plan was an asset. For service subsequent to 1981, ministerial and lay employees of the Conference are eligible to participate in the multi-employer retirement plans offered by The United Methodist Church as described below.

Ministerial Pension Plan: U.S. bishops, Conference members and local pastors under Episcopal appointment are eligible for pension coverage under the Ministerial Pension Plan (MPP). The MPP is a multi-employer defined contribution plan which required the Conference to contribute 12% of each participant's compensation, subject to a limit on total compensation. This plan ended effective December 31, 2006; however, the Conference will be responsible for ongoing contributions of approximately \$901,000 per year starting in 2010 for 7 years. The specific amount of the future commitments will be determined in the fall of 2009.

Comprehensive Protection Plan: In addition to the Ministers Reserve Pension Fund, certain ministerial employees are provided disability and death benefits as well as certain minimum benefits related to pension coverage through participation in the Comprehensive Protection Plan (CPP). The CPP is a multi-employer defined benefit pension plan administered by the General Board of Pensions and Health Benefits of the United Methodist Church. Total contributions to the plan for the years ended December 31, 2008 and 2007 were \$1,545,598 and \$1,514,224, respectively. These amounts are included in program disbursements in the financial statements.

United Methodist Personal Investment Plan: Effective January 1, 2006, WNCC merged the Cumulative Pension and Benefit Fund and the Personal Investment Plan to form the United Methodist Personal Investment Plan (UMPIP). Conference lay employees and conference and local church personnel are eligible to participate in a multi-employer defined contribution plan administered by the General Board of Pensions and Health Benefits of the United Methodist Church which currently requires an employer contribution between 1% and 12%. The Conference currently contributes 9% of all eligible participants' compensation. Total contributions to the plan for the years ended December 31, 2008 and 2007 were \$46,668 and \$49,469, respectively. These amounts are included in program disbursements in the financial statements.

Clergy Retirement Security Program: Effective January 1, 2007, the Conference established the Clergy Retirement Security Program (CRSP), which is a multi-employer defined benefit plan and a defined contribution plan administered by the General Board of Pensions and Health Benefits of the United Methodist Church. Clergy members and local pastors under Episcopal appointment to a conference, church, charge, district or conference controlled entity or unit are eligible to participate. For the defined benefit plan, the contribution is based on a formula using the Denominational Average Compensation and the years of credited service after December 31, 2008 and 2007. For the defined contribution plan, contributions are 3% of each eligible participant's compensation.

Note 6. Retirement Plans (Continued)

Total contributions to the plan for the years ended December 31, 2008 and 2007 were as follows:

	2008	2007
Defined benefit plan	\$ 3,509,513	\$ 4,647,236
Defined contribution plan	1,673,207	1,640,895

In 2007, approximately \$1,949,000 was redirected from the Ministerial Pension Plan to the CRSP Plan.

The total costs for the above benefit plans are generally billed to the churches of the Conference; however, any shortfalls are obligations of the Conference.

Note 7. Postretirement Benefit Plan

The Conference sponsors a multi-employer defined benefit postretirement health care plan for ministerial employees of its member churches and employees of the Conference. The plan is contributory, whereby the retiree contributions can be adjusted for increases in the cost of health care. The plan is unfunded. A measurement date of December 31 is used for the plan.

On December 31, 2007, the Conference adopted the recognition and disclosure provisions of SFAS No. 158, *Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans*, an amendment of the FASB Statements No. 87, 106, and 132(R) ("SFAS 158"). SFAS 158 required the Conference to recognize the funded status of its defined benefit plans in its Statement of Financial Position, with a corresponding adjustment to unrestricted net assets. The adjustment to unrestricted net assets at adoption represented the unrecognized prior service benefit and unrecognized net gain, all of which were previously netted against the funded status of the plan in the Conference's Statement of Financial Position pursuant to the provisions of SFAS No. 87 and 106. These amounts will be recognized as net gains consistent with the Conference's historical accounting policy for amortizing such amounts. In addition, actuarial gains and losses that arise in subsequent periods and not recognized in benefit cost will be recognized in unrestricted net assets.

Western North Carolina Conference
of the United Methodist Church

Notes to the Financial Statements

Note 7. Postretirement Benefit Plan (Continued)

The components of the net periodic postretirement cost (benefit) charged (credited) to expense for the years ended December 31, 2008 and 2007 consisted of the following:

	2008	2007
Service cost for benefits earned during the year	\$ 470,464	\$ 391,015
Interest cost on projected benefit obligation	902,133	773,148
Amortization of net gain	(315,589)	(441,905)
Amortization of prior service benefit	(2,256,434)	(2,256,434)
\$	(1,199,426)	(1,534,176)

Amounts recognized in postretirement changes other than net periodic postretirement costs:

Actuarial gain for current year	\$ 2,472,588	\$ -
Amortization of actuarial gain	(315,589)	-
Amortization of prior service benefit	(2,256,434)	-
\$	(99,435)	-

Amounts recognized in unrestricted net assets but not yet recognized as components of periodic benefit cost:

Unamortized prior service benefit	\$ (15,554,277)	\$ (17,810,711)
Unamortized actuarial gain	(8,422,349)	(6,265,350)
\$	(23,976,626)	(24,076,061)

Amount in unrestricted net assets expected to be recognized in net postretirement cost in 2009 and 2008:

Prior service benefit	\$ (2,256,434)	\$ (2,256,434)
Net gain	(709,146)	(315,589)
\$	(2,965,580)	(2,572,023)

The following benefit payments, which reflect expected future service, are expected to be paid:

	Retiree Contributions	Conference	Total
2009	\$ 1,058,134	\$ 499,373	\$ 1,557,507
2010	1,181,209	534,592	1,715,801
2011	1,339,322	568,057	1,907,379
2012	1,539,150	632,482	2,171,632
2013	1,641,244	646,955	2,288,199
2014-2018	10,955,053	3,681,255	14,636,308

Western North Carolina Conference
of the United Methodist Church

Notes to the Financial Statements

Note 7. Postretirement Benefit Plan (Continued)

The following table provides a reconciliation of the changes in the plan's accumulated postretirement benefit obligation and fair value of assets for the years ended December 31, 2008 and 2007 and a statement of funded status at December 31, 2008 and 2007:

	2008	2007
Reconciliation of accumulated postretirement benefit obligation:		
Accumulated postretirement benefit, beginning	\$ 15,315,159	\$ 13,705,307
Service cost for benefits earned during the year	470,464	391,015
Interest cost on accumulated postretirement benefit obligation	902,133	773,148
Actuarial (gains) losses	(2,472,588)	1,291,855
Contributions by plan participants	656,019	482,375
Benefit payments	(1,562,275)	(1,328,541)
Accumulated postretirement benefit obligations, ending	13,308,912	15,315,159
Reconciliation of fair value of plan assets:		
Fair value of plan assets, beginning	-	-
Employer contributions	906,256	846,166
Contributions by plan participants	656,019	482,375
Benefit payments	(1,562,275)	(1,328,541)
Fair value of plan assets, ending	-	-
Funded status, accumulated postretirement benefit obligation in excess of plan assets	\$ (13,308,912)	\$ (15,315,159)

Western North Carolina Conference
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Notes to the Financial Statements

Note 7. Postretirement Benefit Plan (Continued)

The accumulated postretirement benefit obligation was computed using an assumed discount rate of 6% for 2008 and 2007. The health care trend rate was assumed to be 9.5% in 2008. In 2009, the health care cost trend rate was assumed to be 11%, then the trend rate was assumed to decline by 1% beginning in 2009 for four consecutive years to 7%, then the trend rate was assumed to decline by 0.50% beginning in 2014 for four consecutive years to 5% which would remain level thereafter.

Assumed health care rates have a significant effect on the amounts reported for the plan. A one percent change in assumed health care cost trend rates would have the following effect:

	1% Increase	1% Decrease
Effect on total service and interest cost components	\$ 245,091	\$ (190,107)
Effect on the accumulated postretirement benefit obligation	2,208,312	(1,772,621)

As of December 31, 2008 and 2007, the Conference has approximately \$5,831,000 and \$5,509,000, respectively, designated by the Board to be used for payment of future postretirement costs. Any changes in the plan or revisions to assumptions that affect the amount of expected future benefits may have a significant effect on the amount of the reported obligation and future annual expense.

Note 8. Temporarily Restricted Net Assets

Temporarily restricted net assets at December 31, 2008 and 2007 are available for the following purposes:

	2008	2007
Congregational development	\$ 45,549	\$ 391,043
Retired ministers and their spouses	521,677	789,909
Disaster relief	230,680	168,144
Program ministries	562,773	635,977
Time restricted	71,990	110,094
	<u>\$ 1,432,669</u>	<u>\$ 2,095,167</u>

Western North Carolina Conference
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Notes to the Financial Statements

Note 9. Permanently Restricted Net Assets

Permanently restricted net assets at December 31, 2008 and 2007 are available for the following purposes:

	2008	2007
Investment in perpetuity, the income from which is expendable to support:		
Congregational development	\$ 817,914	\$ 817,914
Retired ministers and their spouses	507,327	507,327
	<u>\$ 1,325,241</u>	<u>\$ 1,325,241</u>

Note 10. Net Assets Released From Restrictions

Net assets during the years ended December 31, 2008 and 2007 were released from donor restrictions by incurring expenses satisfying the restricted purposes or by occurrence of other events specified by donors.

	2008	2007
Congregational development	\$ 137,588	\$ 168,340
Retired ministers and their spouses	4,837	4,741
Disaster relief	238,255	202,585
Program ministries	1,707,009	2,216,351
	<u>\$ 2,087,689</u>	<u>\$ 2,592,017</u>

Note 11. Endowment

Effective January 1, 2008, the Conference adopted the provisions of FASB Staff Position 117-1, *Endowments of Not-for-Profit Organizations: Net Asset Classification of Funds Subject to an Enacted Version of the Uniform Prudent Management of Institutional Funds Act, and Enhanced Disclosures for All Endowment Funds* (FSP 117-1). This staff position increases disclosures related to endowments of not-for-profit organizations and provides guidance to not-for-profit organizations subjected to an enacted version of the Uniform Prudent Management of Institutional Funds Act ("UPMIFA"). Subsequent to year end North Carolina passed a version of UPMIFA. UPMIFA removes the historic dollar value measurement of endowments established by the Uniform Management of Institutional Funds Act. UPMIFA also requires organizations to recognize endowment earnings as temporarily restricted net assets until appropriated by the board. The Conference does not believe that UPMIFA will have a significant impact on its financial statements.

The Conference's endowment consists of five individual funds established for a variety of purposes. Its endowment includes both donor-restricted endowment funds and funds designated by the Board of Trustees to function as endowments. As required by accounting principles generally accepted in the United States of America, net assets associated with endowment funds, including funds designated by the Board of Trustees to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions.

Western North Carolina Conference
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Notes to the Financial Statements

Note 11. Endowment (Continued)

Changes in endowment net assets for the year ended December 31, 2008 and 2007 are as follows:

	2008			
	Unrestricted	Temporarily Restricted	Permanently Restricted Total	
Endowment net assets, beginning of year	\$ 20,512,208	\$ 673,744	\$ 1,325,241	\$ 22,511,193
Investment return:				
Investment income	477,565	31,311	-	508,876
Net depreciation (realized and unrealized)	(5,754,395)	(396,695)	-	(6,151,090)
Total investment return	(5,276,830)	(365,384)	-	(5,642,214)
Appropriation of endowment assets for expenditure	(14,110,668)	(53,943)	-	(14,164,611)
Other changes:				
Transfers to create board-designated endowment funds	14,458,036	-	-	14,458,036
Endowment net assets, end of year	\$ 15,582,746	\$ 254,417	\$ 1,325,241	\$ 17,162,404

Western North Carolina Conference
of the United Methodist Church
Notes to the Financial Statements

Note 11. Endowment (Continued)

Interpretation of Relevant Law

The Board of Trustees of the Conference has interpreted the North Carolina Uniform Management of Institutional Funds Act (the "Act") as requiring the preservation of the corpus of the original gift. As a result of this interpretation, the Conference classifies as permanently restricted net assets (a) the original corpus of gifts donated to the permanent endowment, (b) the original corpus 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 restricted net assets until those amounts are appropriated for expenditure by the Conference.

Endowment net composition by type of fund as of December 31, 2008 and 2007 is as follows:

	2008			2007		
	Unrestricted	Temporarily Restricted	Permanently Restricted Total	Unrestricted	Temporarily Restricted	Permanently Restricted Total
Donor-restricted endowment funds	\$ (70,268)	\$ 254,417	\$ 1,325,241	\$ 1,509,390		
Board-designated endowment funds	15,653,014	-	-	15,653,014		
	\$ 15,582,746	\$ 254,417	\$ 1,325,241	\$ 17,162,404		
Donor-restricted endowment funds	\$ -	\$ 673,744	\$ 1,325,241	\$ 1,998,985		
Board-designated endowment funds	20,512,208	-	-	20,512,208		
	\$ 20,512,208	\$ 673,744	\$ 1,325,241	\$ 22,511,193		

Western North Carolina Conference of the United Methodist Church

Notes to the Financial Statements

Note 11. Endowment (Continued)

	2007			
	Unrestricted	Temporarily Restricted	Permanently Restricted Total	
Endowment net assets, beginning of year	\$ 15,199,648	\$ 607,773	\$ 1,325,241	\$ 17,132,662
Investment return:				
Investment income, net of expense	409,162	44,319	-	453,481
Net appreciation (realized and unrealized)	706,358	74,314	-	780,672
Total investment return	1,115,520	118,633	-	1,234,153
Appropriation of endowment assets for expenditure	(3,157,876)	(52,662)	-	(3,210,538)
Other changes:				
Transfers to create board-designated endowment funds	7,354,916	-	-	7,354,916
Endowment net assets, end of year	\$ 20,512,208	\$ 673,744	\$ 1,325,241	\$ 22,511,193

All temporarily restricted endowments are purpose restricted as disclosed in Note 8.

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 the Act requires the Conference to retain as a fund of perpetual duration. In accordance with accounting principles generally accepted in the United States of America, deficiencies of this nature that are reported in unrestricted net assets were \$70,268 as of December 31, 2008. These deficiencies resulted from unfavorable market fluctuations.

Return Objectives and Risk Parameters

The Conference has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment while seeking to maintain the purchasing power of the endowment assets. Endowment assets include those assets of donor-restricted funds that the organization must hold in perpetuity or for a donor-specified period(s) as well as board-designated funds. 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 of the S&P 500 index while assuming a moderate level of investment risk. The Conference expects its endowment funds, over time, to provide an average rate of return of approximately 5% annually. Actual returns in any given year may vary from this amount.

Western North Carolina Conference of the United Methodist Church

Notes to the Financial Statements

Note 11. Endowment (Continued)

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 4% of its endowment fund's average fair value over the prior 12 quarters through the calendar year-end preceding the fiscal year in which the distribution is planned. In establishing this policy, the Conference considered the long-term expected return on its endowment. Accordingly, over the long term, the Conference expects the current spending policy to allow its endowment to grow at an average of 1% annually. This is consistent with the organization's objective to maintain the purchasing power of the endowment assets held in perpetuity or for a specified term as well as to provide additional real growth through new gifts and investment return.

Note 12. Lease Commitments

The Conference leases various equipment under noncancelable operating leases which expire through February 2012. Minimum annual rentals range from \$3,985 to \$8,979. Total rent expense was approximately \$13,000 and \$27,000 for the years ended December 31, 2008 and 2007, respectively.

Future minimum rental commitments for all noncancelable leases at December 31, 2008 are as follows:

Year	Amount
2009	\$ 7,727
2010	3,985
2011	3,985
2012	664
	\$ 16,361

Note 13. Guarantee of Indebtedness of Others

In December 2002, the Conference guaranteed a loan for a member church. The member church required the loan for working capital purposes. The Conference would be required to perform under the loan if the member church was in default in accordance with the loan agreement. The carrying amount of the loan at December 31, 2008 and 2007 was \$15,488 and \$29,757, respectively, and is payable in monthly installments of \$1,890 including interest at the bank's prime rate 4.00% at December 31, 2008, plus 0.50% through September 2009.

Western North Carolina Conference
of the United Methodist Church

Notes to the Financial Statements

Note 14. Abandoned or Discontinued Property

When a member church is abandoned or discontinued, the deed is transferred from the church's Board of Trustees to the Conference's Board of Trustees. The properties are recorded by the Conference at the lower of the carrying amount or fair value. Since there is no carrying value and the fair market value of the properties is not easily estimated when abandoned, the properties are recorded by the Conference at a value of \$-0-. When sold, the Conference will normally retain 25% of the net proceeds and remit the remaining amount to the applicable district in the area that the church was sold.

Note 15. Unconsolidated Constituent Ministries

Generally accepted accounting principles require the Conference to consolidate entities in which it has control and an economic interest, when that control is evidenced through majority ownership or voting interests. Since the Conference has an economic interest in and control of various constituents through means other than majority ownership or voting interests, consolidation is permitted, but not required. Therefore, the Conference has elected not to consolidate the constituents as described below.

One of those constituents is the Foundation, a not-for-profit organization providing various investment management services for its clients which consist of the Conference and United Methodist churches, institutions, and agencies in Western North Carolina. The primary purpose of the Foundation is to act as an agent to provide professional investment management services to its clients. According to the statement of relationship between the Conference and the Foundation, the organizations have similar purposes and interests but are separate, self-governing associations.

In addition to the Foundation, the Conference has control, other than through majority ownership and voting interest, and an economic interest in each of the following entities:

Districts:

- The Albemarle District of the United Methodist Church, Inc.
- The Asheville District of the United Methodist Church, Inc.
- The Charlotte District of the United Methodist Church, Inc.
- The Gastonia District of the United Methodist Church, Inc.
- The Greensboro District of the United Methodist Church, Inc.
- The High Point District of the United Methodist Church, Inc.
- The Lake Norman District of the United Methodist Church, Inc.
- The Lexington District of the United Methodist Church, Inc.
- The Marion District of the United Methodist Church, Inc.
- The Northeast District of the United Methodist Church, Inc.
- The North Wilkesboro District of the United Methodist Church, Inc.
- The Salisbury District of the United Methodist Church, Inc.
- The Statesville District of the United Methodist Church, Inc.
- The Waynesville District of the United Methodist Church, Inc.
- The Winston-Salem District of the United Methodist Church, Inc.

Western North Carolina Conference
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Notes to the Financial Statements

Note 15. Unconsolidated Constituent Ministries (Continued)

Camps and Other Constituents:

- Building Teams
- Camp Carolwood, Inc.
- Camp Loy White, Inc. of the United Methodist Church, Gastonia District
- Camp McCall, Inc.
- Elk Shoals United Methodist Camp, Inc.
- Finch-Hunt
- Guilford United Methodist Camp, Inc.
- Methodist Counseling Center, Inc.
- Methodist Youth Camp of Western N.C. Conference, Inc.
- Mount Shepherd Retreat Center
- Pastoral Counseling and Consultation Services, Inc.
- Potter's Touch

Summary financial information for these unconsolidated constituents is as follows:

Foundation
Statement of Financial Position
December 31

	2008*	2007*
Assets		
Cash and cash equivalents	\$ 146,732	\$ 315,711
Accounts receivable	1,570,918	218,496
Cash surrender value of life insurance policies	115,170	112,653
Investments	76,657,719	98,873,840
Prepaid expenses and other assets	5,032,077	3,383,866
Land, buildings and equipment, net	31,259	11,185
	<u>\$ 83,553,875</u>	<u>\$ 102,915,751</u>
Liabilities and Net Assets		
Accounts payable	\$ -	\$ 2,336
Agency payables	64,333,680	77,829,713
Charitable remainder unitrusts and gift annuities payable	8,809,444	8,184,768
Deferred charitable benefits	3,438,440	6,592,040
Total liabilities	<u>76,581,564</u>	<u>92,608,857</u>
Net assets:		
Unrestricted	1,582,004	3,133,490
Temporarily restricted	560,787	2,194,644
Permanently restricted	4,829,520	4,978,760
Total net assets	<u>6,972,311</u>	<u>10,306,894</u>
	<u>\$ 83,553,875</u>	<u>\$ 102,915,751</u>

* The Foundation's financial statements are audited by other auditors. The 2007 balances have been subjected to audit and the 2008 balances are unaudited.

Western North Carolina Conference
of the United Methodist Church
Notes to the Financial Statements

Note 15. Unconsolidated Constituent Ministries (Continued)

Districts and Other Constituents
Statement of Financial Position (Unaudited)
December 31

Assets	2008	2007
Cash and cash equivalents	\$ 3,351,588	\$ 3,012,558
Receivables	197,987	217,046
Investments	2,402,750	2,213,000
Prepaid expenses and other assets	29,579	29,058
Land, buildings and equipment, net	5,381,005	5,461,038
	<u>\$ 11,362,909</u>	<u>\$ 10,932,700</u>
Liabilities and Net Assets		
Accounts payable	\$ 420,822	\$ 354,736
Notes payable	827,015	974,543
Total liabilities	<u>1,247,837</u>	<u>1,329,279</u>
Net assets:		
Unrestricted	7,485,338	7,587,562
Temporarily restricted	1,928,078	1,959,549
Permanently restricted	701,656	56,310
Total net assets	<u>10,115,072</u>	<u>9,603,421</u>
	<u>\$ 11,362,909</u>	<u>\$ 10,932,700</u>

Western North Carolina Conference
of the United Methodist Church
Notes to the Financial Statements

Note 15. Unconsolidated Constituent Ministries (Continued)

Foundation
Statement of Activities
Years Ended December 31

	2008*	2007*
Revenues, gains and other support:		
Contributions	\$ 706,343	\$ 1,230,469
Fees for investment services	575,491	646,222
Investment income	263,408	269,385
Net realized and unrealized gain on investments	(2,299,485)	336,854
Interest income on loans	206,393	83,211
Changes in value of split-interest agreements	(1,267,169)	11,864
Total revenues, gains and other support	<u>(1,815,019)</u>	<u>2,578,005</u>
Expenses:		
Management and general expenses	756,705	641,257
Beneficiary payments	566,238	607,576
Fees paid	28,595	20,363
Interest expense	168,026	115,112
Total expenses	<u>1,519,564</u>	<u>1,384,308</u>
Change in net assets	(3,334,583)	1,193,697
Net assets, beginning	10,306,894	9,113,197
Net assets, ending	<u>\$ 6,972,311</u>	<u>\$ 10,306,894</u>

* The Foundation's financial statements are audited by other auditors. The 2007 balances have been subjected to audit and the 2008 balances are unaudited.

Western North Carolina Conference
of the United Methodist Church

Notes to the Financial Statements

Note 15. Unconsolidated Constituent Ministries (Continued)

Districts and Other Constituents
Statement of Activities (Unaudited)
Years Ended December 31

	2008	2007
Revenues, gains, and other support:		
Apportionments, income, and other contributions	\$ 6,735,480	\$ 6,736,861
Investment income	40,929	257,861
Net realized gain	1,262	2,741
Net unrealized gain	27,400	51,957
Gain on sale of asset	-	750
Total revenues, gains and other support	<u>6,805,071</u>	<u>7,050,170</u>
Expenses:		
Program disbursements	3,524,976	4,120,015
District offices	2,768,444	3,718,864
Total expenses	<u>6,293,420</u>	<u>7,838,879</u>
Change in net assets	511,651	(788,709)
Net assets, beginning	9,603,421	10,392,130
Net assets, ending	<u>\$ 10,115,072</u>	<u>\$ 9,603,421</u>

The following entities could not provide financial information as of December 31, 2008 or 2007; therefore, we have included their balances from the most recent calendar year for which financial information was provided: Mount Shepherd Retreat Center, Camp Carolwood, Inc., and Camp McCall, Inc. Financial information as of December 31, 2008 was also not available for Elk Shoals.

The summary financial information does not eliminate the transactions between the Conference and the constituents, such as investment activity in the Foundation and contributions from the Conference to the districts and other constituents.

The Conference has a reversionary interest in the assets of the majority of the districts and other constituents, as well as an obligation for any liabilities incurred. In several cases, the districts have a majority ownership or voting interest in the camps, which would require consolidation of those entities at the district level. One district also has a majority voting interest in a separate, unaffiliated not-for-profit organization that would require consolidation at the district level. Total assets of that organization were approximately \$9,569,000 as of December 31, 2007. The total assets for 2008 are not yet available.

The Conference is also affiliated with a significant number of related ministries through its connection with the United Methodist Church. The Conference has signed a statement of relationship with the districts and other entities that defines this connectonal relationship and states that neither entity may require the other entity to assume any contractual, financial or other obligation. These affiliated entities are in addition to the constituents above since the Conference does not have control of a financial interest in the affiliated entities. Grants and operating support provided to these entities totaled \$493,394 and \$584,860 for the years ended December 31, 2008 and 2007, respectively. These entities provided contributions to the Conference totaling approximately \$204,000 and \$219,000 for the years ended December 31, 2008 and 2007, respectively.