

**IOWA ANNUAL CONFERENCE OF THE UNITED  
METHODIST CHURCH AND AFFILIATE**

**CONSOLIDATED FINANCIAL STATEMENTS**  
December 31, 2013 and 2012

IOWA ANNUAL CONFERENCE OF THE UNITED  
METHODIST CHURCH AND AFFILIATE

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December 31, 2013 and 2012

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## INDEPENDENT AUDITOR'S REPORT

The Audit Committee  
Iowa Annual Conference of the United Methodist Church  
Des Moines, Iowa

**Report on the Financial Statements**

We have audited the accompanying consolidated financial statements of the Iowa Annual Conference of the United Methodist Church and its affiliate, the Board of Pensions of the Iowa Annual Conference of the United Methodist Church (collectively, the Conference), which comprise the consolidated statements of financial position as of December 31, 2013 and 2012 and the related consolidated 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 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.

**Auditor's Responsibility**

Our responsibility is to express an opinion on these consolidated 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 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 auditor's 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 auditor considers internal control relevant to the entity's 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 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 consolidated financial statements.

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

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(Continued)

## Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Iowa Annual Conference of the United Methodist Church and its affiliate, the Board of Pensions of the Iowa Annual Conference of the United Methodist Church as of December 31, 2013 and 2012, and the changes in their net assets and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

## Other Matter

Our audits were conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The consolidating statement of financial position, consolidating statement of activities – unrestricted net assets, consolidating statement of activities – temporarily restricted net assets, consolidating statement of activities – permanently restricted net assets, and statements of cash receipts and disbursements – episcopal fund – cash basis of accounting, are presented for purposes of additional analysis and are not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied in the audits of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the consolidated financial statements as a whole.



Crowe Horwath LLP

Chicago, Illinois  
May 19, 2014

IOWA ANNUAL CONFERENCE OF THE UNITED  
METHODIST CHURCH AND AFFILIATE  
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION  
December 31, 2013 and 2012

	<u>2013</u>	<u>2012</u>
<b>ASSETS</b>		
Cash and cash equivalents	\$ 4,500,875	\$ 3,842,768
Receivables		
Apportionment receivables, net	1,501,541	1,434,006
Loans receivable, net (Note 2)	453,345	271,364
Other receivables	<u>232,899</u>	<u>155,161</u>
	2,187,785	1,860,531
Investments (Notes 3 and 16)	45,292,154	36,278,327
Assets held for sale	2,000	512,000
Property and equipment, net (Note 4)	9,780,080	10,103,467
Other assets	<u>2,667,015</u>	<u>2,873,304</u>
Total assets	<u>\$ 64,429,909</u>	<u>\$ 55,470,397</u>
<b>LIABILITIES AND NET ASSETS</b>		
Liabilities		
Accounts payable and accrued expenses	\$ 762,733	\$ 1,301,300
Obligations under capital leases (Note 10)	91,867	177,545
Notes payable (Note 5)	1,877,184	2,092,823
Pass-through liabilities (Note 6)	304,767	305,987
Accrued postretirement benefit obligation (Note 8)	<u>15,567,774</u>	<u>17,470,182</u>
Total liabilities	<u>18,604,325</u>	<u>21,347,837</u>
Net assets (Note 11)		
Unrestricted		
Funds available for current operations	1,342,947	2,059,246
Funds designated for specific purposes	<u>37,186,505</u>	<u>25,260,947</u>
	38,529,452	27,320,193
Temporarily restricted	3,258,740	3,066,478
Permanently restricted	<u>4,037,392</u>	<u>3,735,889</u>
Total net assets	<u>45,825,584</u>	<u>34,122,560</u>
Total liabilities and net assets	<u>\$ 64,429,909</u>	<u>\$ 55,470,397</u>

See accompanying notes to consolidated financial statements.

IOWA ANNUAL CONFERENCE OF THE UNITED  
METHODIST CHURCH AND AFFILIATE  
CONSOLIDATED STATEMENT OF ACTIVITIES  
Year ended December 31, 2013

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Revenue, gains and other support				
Apportionments, net (Note 13)	\$ 10,870,827	\$ -	\$ -	\$ 10,870,827
District askings	-	236,108	-	236,108
Charitable contributions and grants	13,666	2,061,088	17,789	2,092,543
Registration fees	1,264,861	-	-	1,264,861
Investment earnings	911,009	45,634	-	956,643
Sale of goods and services	48,846	8,010	-	56,856
Other revenue	259,331	8,780	-	268,111
Net assets released from restrictions, satisfaction of program restrictions	<u>2,443,675</u>	<u>(2,443,675)</u>	<u>-</u>	<u>-</u>
Total revenue, gains and other support	<u>15,812,215</u>	<u>(84,055)</u>	<u>17,789</u>	<u>15,745,949</u>
Expenses				
Program services				
Clergy support ministries	1,680,592	-	-	1,680,592
Local church support ministries	4,897,180	-	-	4,897,180
Institutional support ministries	1,469,203	-	-	1,469,203
Other ministries	<u>1,475,954</u>	<u>-</u>	<u>-</u>	<u>1,475,954</u>
	<u>9,522,929</u>	<u>-</u>	<u>-</u>	<u>9,522,929</u>
Supporting services				
General and administrative	3,553,436	-	-	3,553,436
Fund raising	<u>175,219</u>	<u>-</u>	<u>-</u>	<u>175,219</u>
	<u>3,728,655</u>	<u>-</u>	<u>-</u>	<u>3,728,655</u>
Total expenses	<u>13,251,584</u>	<u>-</u>	<u>-</u>	<u>13,251,584</u>
Changes in net assets before non-operating	2,560,631	(84,055)	17,789	2,494,365
Net realized and unrealized gain on investments	9,941,553	276,317	283,714	10,501,584
Gain on sale of property and equipment	41,602	-	-	41,602
Pension and post retirement health benefit plan changes other than net periodic benefit costs (Notes 7 and 8)	<u>(1,334,527)</u>	<u>-</u>	<u>-</u>	<u>(1,334,527)</u>
Changes in net assets	11,209,259	192,262	301,503	11,703,024
Net assets, beginning of year	<u>27,320,193</u>	<u>3,066,478</u>	<u>3,735,889</u>	<u>34,122,560</u>
Net assets, end of year	<u>\$ 38,529,452</u>	<u>\$ 3,258,740</u>	<u>\$ 4,037,392</u>	<u>\$ 45,825,584</u>

See accompanying notes to consolidated financial statements.

IOWA ANNUAL CONFERENCE OF THE UNITED  
METHODIST CHURCH AND AFFILIATE  
CONSOLIDATED STATEMENT OF ACTIVITIES  
Year ended December 31, 2012

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
<b>Revenue, gains and other support</b>				
Apportionments, net (Note 13)	\$ 10,980,189	\$ -	\$ -	\$ 10,980,189
District askings	-	245,386	-	245,386
Charitable contributions and grants	49,947	1,921,307	29,068	2,000,322
Registration fees	1,255,019	-	-	1,255,019
Investment earnings	1,132,276	50,655	-	1,182,931
Sale of goods and services	50,992	591	-	51,583
Other revenue	271,463	9,315	-	280,778
Net assets released from restrictions, satisfaction of program restrictions	<u>2,231,084</u>	<u>(2,231,084)</u>	<u>-</u>	<u>-</u>
Total revenue, gains and other support	<u>15,970,970</u>	<u>(3,830)</u>	<u>29,068</u>	<u>15,996,208</u>
<b>Expenses</b>				
<b>Program services</b>				
Clergy support ministries	1,219,175	-	-	1,219,175
Local church support ministries	4,752,385	-	-	4,752,385
Institutional support ministries	1,211,363	-	-	1,211,363
Other ministries	<u>1,459,785</u>	<u>-</u>	<u>-</u>	<u>1,459,785</u>
	<u>8,642,708</u>	<u>-</u>	<u>-</u>	<u>8,642,708</u>
<b>Supporting services</b>				
General and administrative	3,661,720	-	-	3,661,720
Fund raising	<u>97,271</u>	<u>-</u>	<u>-</u>	<u>97,271</u>
	<u>3,758,991</u>	<u>-</u>	<u>-</u>	<u>3,758,991</u>
Total expenses	<u>12,401,699</u>	<u>-</u>	<u>-</u>	<u>12,401,699</u>
Changes in net assets before non-operating	3,569,271	(3,830)	29,068	3,594,509
Net realized and unrealized gain on investments	2,648,822	145,564	167,725	2,962,111
Gain on sale of property and equipment	22,277	-	-	22,277
Unrelated business income tax	(606,723)	-	-	(606,723)
Pension and post retirement health benefit plan changes other than net periodic benefit costs (Notes 7 and 8)	<u>(2,637,657)</u>	<u>-</u>	<u>-</u>	<u>(2,637,657)</u>
Changes in net assets	2,995,990	141,734	196,793	3,334,517
Net assets, beginning of year	<u>24,324,203</u>	<u>2,924,744</u>	<u>3,539,096</u>	<u>30,788,043</u>
Net assets, end of year	<u>\$ 27,320,193</u>	<u>\$ 3,066,478</u>	<u>\$ 3,735,889</u>	<u>\$ 34,122,560</u>

See accompanying notes to consolidated financial statements.

IOWA ANNUAL CONFERENCE OF THE UNITED  
METHODIST CHURCH AND AFFILIATE  
CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES  
Year ended December 31, 2013

	Program Services				Total Program Services	Supporting Services			Totals
	Clergy Support Ministries	Local Church Support Ministries	Institutional Support Ministries	Other Ministries		General and Administrative	Fund Raising	Total Supporting Services	
Salaries and benefits									
Salaries and wages	\$ 1,105,879	\$ 1,720,759	\$ -	\$ 174,443	\$ 3,001,081	\$ 1,185,573	\$ 58,490	\$ 1,244,063	\$ 4,245,144
Fringe benefits	373,284	522,319	-	54,305	949,908	380,107	19,969	400,076	1,349,984
Total salaries and benefits	<u>1,479,163</u>	<u>2,243,078</u>	<u>-</u>	<u>228,748</u>	<u>3,950,989</u>	<u>1,565,680</u>	<u>78,459</u>	<u>1,644,139</u>	<u>5,595,128</u>
Other expenses									
Occupancy	221,862	174,878	-	4,800	401,540	164,725	-	164,725	566,265
Office	50,177	75,037	-	9,179	134,393	154,580	22,404	176,984	311,377
Program supplies and materials	-	215,553	-	-	215,553	-	-	-	215,553
Professional fees and contract services	37,824	54,496	-	3,459	95,779	381,111	22,923	404,034	499,813
Insurance	3,644	11,942	-	-	15,586	141,988	-	141,988	157,574
Staff and volunteer hotel, travel, meals and entertainment	129,791	102,455	-	11,531	243,777	83,704	7,415	91,119	334,896
Clergy moving	358,955	-	-	-	358,955	-	-	-	358,955
Conferences, meetings and retreat	71,961	273,136	69	5,651	350,817	262,782	4,608	267,390	618,207
Expendable equipment	85,701	164,875	-	1,891	252,467	114,599	5,646	120,245	372,712
Depreciation	93,471	228,928	-	2,172	324,571	298,222	-	298,222	622,793
Cost of goods and services	-	26,828	-	-	26,828	930	1,658	2,588	29,416
Bad debts	-	-	-	-	-	64,620	-	64,620	64,620
Miscellaneous	4,077	284,448	-	629	289,154	320,495	32,106	352,601	641,755
Net periodic benefit cost (Note 8)	(1,097,636)	-	-	-	(1,097,636)	-	-	-	(1,097,636)
Grants to local church ministries	<u>241,602</u>	<u>1,041,526</u>	<u>1,469,134</u>	<u>1,207,894</u>	<u>3,960,156</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>3,960,156</u>
Total other expenses	<u>201,429</u>	<u>2,654,102</u>	<u>1,469,203</u>	<u>1,247,206</u>	<u>5,571,940</u>	<u>1,987,756</u>	<u>96,760</u>	<u>2,084,516</u>	<u>7,656,456</u>
Total expenses	<u>\$ 1,680,592</u>	<u>\$ 4,897,180</u>	<u>\$ 1,469,203</u>	<u>\$ 1,475,954</u>	<u>\$ 9,522,929</u>	<u>\$ 3,553,436</u>	<u>\$ 175,219</u>	<u>\$ 3,728,655</u>	<u>\$ 13,251,584</u>

See accompanying notes to consolidated financial statements.



IOWA ANNUAL CONFERENCE OF THE UNITED  
METHODIST CHURCH AND AFFILIATE  
CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES  
Year ended December 31, 2012

	Program Services				Supporting Services			Totals	
	Clergy Support Ministries	Local Church Support Ministries	Institutional Support Ministries	Other Ministries	Total Program Services	General and Administrative	Fund Raising		Total Supporting Services
Salaries and benefits									
Salaries and wages	\$ 1,059,432	\$ 1,780,066	\$ -	\$ 222,210	\$ 3,061,708	\$ 1,190,930	\$ 6,299	\$ 1,197,229	\$ 4,258,937
Fringe benefits	400,390	575,939	-	71,281	1,047,610	406,793	5,122	411,915	1,459,525
Total salaries and benefits	<u>1,459,822</u>	<u>2,356,005</u>	<u>-</u>	<u>293,491</u>	<u>4,109,318</u>	<u>1,597,723</u>	<u>11,421</u>	<u>1,609,144</u>	<u>5,718,462</u>
Other expenses									
Occupancy	219,059	218,447	-	4,800	442,306	160,220	-	160,220	602,526
Office	57,470	96,331	-	8,597	162,398	167,272	25,321	192,593	354,991
Program supplies and materials	-	203,880	-	-	203,880	-	-	-	203,880
Professional fees and contract services	40,069	43,162	-	450	83,681	353,552	25,355	378,907	462,588
Insurance	25,455	9,966	-	-	35,421	377,076	-	377,076	412,497
Staff and volunteer hotel, travel, meals and entertainment	87,291	108,262	-	15,923	211,476	126,279	5,752	132,031	343,507
Clergy moving	319,962	-	-	-	319,962	-	-	-	319,962
Conferences, meetings and retreat	52,735	269,562	-	2,177	324,474	326,541	6,308	332,849	657,323
Expendable equipment	89,333	149,644	-	1,613	240,590	111,715	-	111,715	352,305
Depreciation	93,495	250,659	-	4,927	349,081	281,304	-	281,304	630,385
Cost of goods and services	-	25,035	-	-	25,035	2,333	-	2,333	27,368
Bad debts	-	-	-	-	-	(72,316)	-	(72,316)	(72,316)
Miscellaneous	8,337	3,448	-	205	11,990	230,021	23,114	253,135	265,125
Net periodic benefit cost (Note 8)	(1,535,959)	-	-	-	(1,535,959)	-	-	-	(1,535,959)
Grants to local church ministries	<u>302,106</u>	<u>1,017,984</u>	<u>1,211,363</u>	<u>1,127,602</u>	<u>3,659,055</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>3,659,055</u>
Total other expenses	<u>(240,647)</u>	<u>2,396,380</u>	<u>1,211,363</u>	<u>1,166,294</u>	<u>4,533,390</u>	<u>2,063,997</u>	<u>85,850</u>	<u>2,149,847</u>	<u>6,683,237</u>
Total expenses	<u>\$ 1,219,175</u>	<u>\$ 4,752,385</u>	<u>\$ 1,211,363</u>	<u>\$ 1,459,785</u>	<u>\$ 8,642,708</u>	<u>\$ 3,661,720</u>	<u>\$ 97,271</u>	<u>\$ 3,758,991</u>	<u>\$ 12,401,699</u>

See accompanying notes to consolidated financial statements.

IOWA ANNUAL CONFERENCE OF THE UNITED  
METHODIST CHURCH AND AFFILIATE  
CONSOLIDATED STATEMENTS OF CASH FLOWS  
Years ended December 31, 2013 and 2012

	<u>2013</u>	<u>2012</u>
Cash flows from operating activities		
Change in net assets	\$ 11,703,024	\$ 3,334,517
Adjustments to reconcile change in net assets to net cash from operating activities:		
Change in postretirement benefit obligation not yet recognized in periodic pension cost	1,303,130	5,717,062
Net realized and unrealized gain on investments	(10,501,584)	(2,962,111)
Recovery of bad debt	-	(60,000)
Bad debt expense	64,620	15,575
Gain on sale of property and equipment	(41,601)	(22,277)
Depreciation expense	622,793	630,385
Contributions restricted for long-term investments	(17,789)	(29,068)
Changes in assets and liabilities:		
Apportionment receivables, net	(67,535)	117,271
Other receivables	(142,358)	54,945
Assets held for sale	510,000	(280,640)
Other assets	206,289	(166,385)
Accounts payable and accrued expenses	(538,567)	740,659
Pass-through liabilities	(1,220)	203,092
Accrued postretirement benefit obligation	<u>(3,205,538)</u>	<u>(5,448,542)</u>
Net cash from operating activities	<u>(106,336)</u>	<u>1,844,483</u>
Cash flows from investing activities		
Purchases of property and equipment	(301,330)	(634,512)
Proceeds from sale of property and equipment	43,525	22,277
Loans made	(233,000)	-
Principal payments received on loans receivable	51,019	133,313
Purchase of investments	(7,092,394)	(6,929,091)
Proceeds from sale of investments	<u>8,580,151</u>	<u>6,611,805</u>
Net cash from investing activities	<u>1,047,971</u>	<u>(796,208)</u>
Cash flows from financing activities		
Proceeds from notes payable	-	230,810
Principal payments on notes payable	(215,639)	(200,518)
Principal payments on capital leases	(85,678)	(85,428)
Proceeds from contributions restricted for long-term investments	<u>17,789</u>	<u>29,068</u>
Net cash from financing activities	<u>(283,528)</u>	<u>(26,068)</u>
Net change in cash and cash equivalents	658,107	1,022,207
Cash and cash equivalents		
Beginning of year	<u>3,842,768</u>	<u>2,820,561</u>
End of year	<u>\$ 4,500,875</u>	<u>\$ 3,842,768</u>
Supplemental disclosure of cash flow information		
Cash paid for interest	<u>\$ 94,395</u>	<u>\$ 96,848</u>
Supplemental disclosure of noncash investing		
Equipment purchased through capital lease	<u>\$ -</u>	<u>\$ 44,332</u>

See accompanying notes to consolidated financial statements.

IOWA ANNUAL CONFERENCE OF THE UNITED  
METHODIST CHURCH AND AFFILIATE  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
December 31, 2013 and 2012

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**NOTE 1 - NATURE OF ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES**

Nature of Organization: The Iowa Annual Conference of the United Methodist Church and Affiliate (collectively, the Conference) is a not-for-profit organization representing approximately 790 member churches throughout the state of Iowa. The Conference provides various services to 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. The program areas of the Conference are as follows:

- Clergy support ministries, which include the credentialing, appointment, supervision, nurturing and caring for active and retired clergy within the Conference.
- Local church support ministries, which include grants given to local churches to help them fulfill their mission and ministry within a local congregation and to assist them in connecting with the broader mission within the state, nation and world.
- Institutional support ministries, which include grants provided to institutions that have a historic and covenant relationship with the Conference.
- Other ministries, which include all other programs and ministries that do not fall under one of the categories listed above.

Principles of Consolidation: The Iowa Annual Conference of the United Methodist Church has an economic interest in, and control of, the Board of Pensions of the Iowa Annual Conference of the United Methodist Church (the Board of Pensions) through a majority voting interest in the Board of Directors, and therefore consolidates the Board of Pensions. All significant intercompany balances and transactions have been eliminated in consolidation.

Basis of Accounting: The Conference financial statements are presented on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America (U.S. GAAP).

Cash and Cash Equivalents: The Conference considers all highly liquid investments available for current use with an initial maturity of three months or less to be cash equivalents. The Conference maintains its cash in bank deposit accounts which at times may exceed the federally insured limits. The Conference has not experienced any losses in such accounts. The Conference believes it is not exposed to any significant credit risk on cash and cash equivalents.

Receivables: Apportionment receivables are carried at the estimated net amount collectible. Other receivables are carried at original invoice amount or contract amount less an estimate made for doubtful receivables. Management determines the allowance for doubtful accounts by identifying delinquent accounts and by using historical experience applied to an aging of accounts. An allowance for uncollectible contributions receivable is provided based on management's judgment, including such factors as prior collection history, type of contribution and nature of fund raising activity. Receivables are written off when deemed uncollectible. Recoveries of receivables previously written off are recorded when received.

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(Continued)

IOWA ANNUAL CONFERENCE OF THE UNITED  
METHODIST CHURCH AND AFFILIATE  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
December 31, 2013 and 2012

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**NOTE 1 - NATURE OF ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES (Continued)**

Loans Receivable: The Conference provides building loans to congregations on a periodic basis. Loans receivable are stated at the amount of unpaid principal and interest. The Conference reviews loan activity on a periodic basis and considers current economic conditions, historical loss experience and review of specific problem loans and other factors in determining the necessity of an allowance for loan loss. Loans are considered impaired when, based on all current information and events, it is probable the Conference will not be able to collect all amounts due.

Interest on loans is accrued daily on the outstanding balances. Accrual of interest is discontinued on a loan when the Board of Global Ministries Parish Development Committee believes, after considering collection efforts and other factors, that the borrower's financial condition is such that collection of interest is doubtful. As of December 31, 2013 and 2012, loans not accruing interest totaled approximately \$0 and \$61,000, respectively.

Investments and Related Income, Gains, and Losses: Investments are reported at fair value, except for certain investments in certificates of participation and farmland, which are reported at cost. Investments carried at fair value consist primarily of stocks, corporate and government obligations, and mutual funds. The cost of securities sold is based on either the specific identification or average-cost method. Investment income, gains and losses, and any investment-related expenses are recorded as changes in unrestricted net assets in the statement of activities unless their use is temporarily or permanently restricted by explicit donor stipulations.

Farmland: The Conference owned farmland that was recorded at fair value as of the date of donation to the Conference, establishing the historical cost basis to the Conference, plus the carrying value of crop inventory as of December 31, 2012. The initial value of the farmland property was based on management's estimate of fair value taking into consideration appraisals of the property made as of the date of donation to the Conference.

In February 2013, management sold the farm investment for approximately \$6,380,000. As disclosed in Note 8, the proceeds of this farm have been designated to support the unfunded benefit obligation of the postretirement health benefit.

Property and Equipment: Property and equipment have been recorded at cost or fair value at the date of donation. Assets with a cost greater than \$1,000 individually and \$3,000 in a group are capitalized. Major renovations that extend an asset's useful life with a cost of \$5,000, or greater, are also capitalized. Depreciation is provided over the estimated useful lives of the respective assets on a straight-line basis.

Impairment of Long-Lived Assets: The carrying value of the Conference's long-lived assets is reviewed to determine if facts or circumstances suggest that the assets may be impaired or that the remaining useful, depreciable life may need to be changed. The Conference considers internal and external factors related to each asset, including future asset utilization and business climate. If these factors and the projected undiscounted cash flows of the asset over the remaining life indicate that the asset will not be recoverable, the carrying value will be adjusted down to the estimated fair value, if less than book value.

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(Continued)

IOWA ANNUAL CONFERENCE OF THE UNITED  
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**NOTE 1 - NATURE OF ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES (Continued)**

Abandoned and Closed Churches: Abandoned or closed churches become the property of the Conference. The Conference also assumes any liabilities that an abandoned or closed congregation is unable to pay, such as loans payable. Any liabilities that revert to the Conference are recorded at fair value as of the date the church closes and are classified within accounts payable and accrued expenses. Losses associated with assumed liabilities are recorded as miscellaneous general and administrative expense. Churches that become the property of the Conference are either sold based on a bidding process, or, if no bids are received, the property will be demolished with the vacant lot offered to adjacent land owners in exchange for the legal fees associated with transferring the title. Abandoned or closed churches are recorded at fair value less costs to dispose on the date the church becomes the property of the Conference. Any gain from the sale of an abandoned church is recorded as miscellaneous revenue. Fair value is determined based on the intended disposition of the church and available market data. As of December 31, 2013, one abandoned church was held for sale at year-end.

Revenue Recognition:

Apportionment Revenue: The principal source of revenue and support is apportionments received from the member churches of the Conference. Apportionments are the recommended levels of support assigned to the churches each year. A significant dollar amount of member church apportionments are received close to year-end, and member churches are provided a cutoff date subsequent to year-end in order for churches to fulfill their annual apportionments. Accounts receivable are recognized at the dollar amount of annual apportionments not received by year-end.

Contributions: The Conference records contributions, including promises to give, when the contribution is deemed unconditional. Contributions are reflected in the financial statements at the earlier of the transfer of assets or at the time the unconditional promise to give is made and are reported as increases in the appropriate category of net assets in accordance with donor imposed restrictions. Bequests are recognized as a contribution at the time the estate is settled, provided the bequest is unconditional. When a 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 statement of activities as net assets released from restrictions.

Contributions to be received in excess of one year are discounted at an appropriate discount rate commensurate with the risks involved. Amortization of discounts is recorded as additional contribution revenue in accordance with donor-imposed restrictions, if any.

Conditional promises to give, where the donor has placed a condition on the gift that the ultimate transfer of assets or promise to give is contingent on a future and uncertain event, are not recorded as contributions until the condition is substantially met. There are no material amounts of conditional promises to give as of December 31, 2013 and 2012.

Registration Fee Income: Registration fee income is recorded as revenue when the activities are performed. Amounts received in advance of an activity are reported as deferred revenue.

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

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(Continued)

IOWA ANNUAL CONFERENCE OF THE UNITED  
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**NOTE 1 - NATURE OF ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES (Continued)**

Classification of Net Assets: The Conference reports information regarding its financial position and activities according to three classes of net assets, defined as:

Unrestricted – net assets that are neither permanently restricted nor temporarily restricted by donor-imposed stipulations. The Conference may designate portions of its unrestricted net assets as board-designated for various purposes.

Temporarily restricted – net assets resulting from contributions whose use by the Conference is limited by donor imposed stipulations that either expire by passage of time or can be fulfilled by actions of the Conference meeting the purpose of the restriction.

Permanently restricted – net assets resulting from contributions whose use by the Conference is limited by donor-imposed stipulations that neither expire by passage of time nor can be fulfilled or otherwise removed by actions of the Conference. Although such assets cannot be expended, the investment income earned on them is generally to be expended for a specific purpose.

Pass-through Liabilities: Pass-through liabilities represent amounts received that have not been passed on to certain charities specified by the donor. The Conference remits such funds to the various charities within thirty days of each month-end. Because the Conference does not have variance power over how these funds are disbursed and serves only an administrative function in collecting and disbursing the funds, these funds are not included in the Conference's revenue and expenses.

Reclassification: Certain prior year amounts have been reclassified to conform to the current year presentation. Such reclassifications did not affect the change in net assets or total net assets.

Income Taxes: The United Methodist Church has received a determination letter from the Internal Revenue Service indicating that the United Methodist Church and its affiliated entities, including the Conference, is a tax-exempt religious organization under the provisions of 501(c)(3) and is not subject to federal and state income taxes on related income. The Conference is subject to federal and state income taxes to the extent it has unrelated business income.

The Conference follows guidance issued by the Financial Accounting Standards Board (FASB) with respect to accounting for uncertainty in income taxes. A tax position is recognized as a benefit only if it is more likely than not that the tax position would be sustained in a tax examination, with a tax examination being presumed to occur. The amount recognized is the largest amount of tax benefit that is greater than 50% likely of being realized on examination. For tax positions not meeting the more likely than not test, no tax benefit is recorded.

During 2012, management became aware that income earned on farming operations is considered unrelated business income and therefore is subject to federal and state income taxes. In 2013, management submitted tax returns to report the unrelated business income for the past ten years. Approximately \$606,000 was recorded within accounts payable and accrued liabilities as of December 31, 2012. The Conference recognizes interest and penalties related to unrecognized tax benefits in unrelated business income tax expense. The Conference recognized and accrued approximately \$0 and \$100,000 for interest and penalties as of and for the years ended December 31, 2013 and 2012.

Due to its tax-exempt status, the Conference is not subject to U.S. federal income tax or state income tax. The Conference is no longer subject to examination by U.S. federal or state taxing authorities for years before December 31, 2010. The Conference does not expect the total amount of unrecognized tax benefits to significantly change in the next 12 months.

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(Continued)

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**NOTE 1 - NATURE OF ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES (Continued)**

Subsequent Events: Management has performed an analysis of the activities and transactions subsequent to December 31, 2013, to determine the need for any adjustments to and/or disclosures within the audited financial statements for the year ended December 31, 2013. Management has performed their analysis through May 19, 2014, the date the financial statements were available to be issued. Activities subsequent to this date have not been evaluated by management.

**NOTE 2 - LOANS RECEIVABLE**

Congregational and Employee Loans: Loans to local United Methodist congregations originate primarily through the Rotating Loan Fund. Loan applications for growth and revitalization are submitted to the Conference Board of Global Ministry's Parish Development Committee by new and existing churches. The loans, which are unsecured, carry an interest rate at an established number of points above the prime rate at the date the loan is approved by the Parish Development Committee, and payment terms are negotiated on an individual loan basis. Zero percent interest rate loans may be requested for the first three to five years by new congregations. Generally, the loans range from 10 to 15 years with current loan interest rates of 2% - 3%.

Because of the financial uniqueness of this market, 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 congregation 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 congregations, and on the maintenance of adequate contributions by individual members to their congregations, as well as on prudent management by those congregations of their finances. The Conference may also accommodate partial, deferred, or late payments more readily than commercial lenders. Such loan practices may result in less money being collected on delinquent loans than a commercial lender would normally collect and may result in a higher loan delinquency rate.

The Conference offers loans to certain staff members for the purpose of purchasing a principal residence. The loans cannot exceed 25% of the appraised value of the property and must be paid through payroll withholdings. Interest rates and terms are determined on an individual basis. Current loans outstanding are for 15 years with an interest rate of 8% per annum.

Loans receivable at December 31, 2013 and 2012 are as follows:

	<u>2013</u>	<u>2012</u>
United Methodist congregations	\$ 419,139	\$ 316,990
Employee mortgage loans	2,210	-
Closed church sale receivable	<u>31,996</u>	<u>15,506</u>
	453,345	332,496
Allowance for doubtful loans	<u>-</u>	<u>(61,132)</u>
Total loans receivable, net	<u>\$ 453,345</u>	<u>\$ 271,364</u>

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(Continued)

IOWA ANNUAL CONFERENCE OF THE UNITED  
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**NOTE 2 - LOANS RECEIVABLE** (Continued)

Allowance for Loan Losses and Related Loans: The loan portfolio consists of one segment – related party loans with two classes of loans – United Methodist Congregation loans and employee loans. The allowance for loan losses entirely relates to congregational loans as of December 31, 2012. A summary of the activity in the allowance for loan losses for congregational loans is as follows:

	<u>2013</u>	<u>2012</u>
Allowance for doubtful loans, beginning of year	\$ (61,132)	\$ (231,773)
Recoveries	-	60,000
Write offs	<u>61,132</u>	<u>110,641</u>
Allowance for doubtful loans, end of year	<u>\$ -</u>	<u>\$ (61,132)</u>

A summary of loans receivable, as of December 31, 2013 and 2012, is as follows:

	<u>2013</u>	<u>2012</u>
Current (Accruing)	\$ 453,345	\$ 271,364
180 Days and Over (Non-Accruing)	<u>-</u>	<u>61,132</u>
	<u>\$ 453,345</u>	<u>\$ 332,496</u>

The allowance for doubtful loans at December 31, 2012, represents the balance of all United Methodist congregation loans that are past due, which were assessed individually for impairment. Management has not entered into any troubled debt restructuring related to the loans. The portfolio can be divided into two categories, performing and non-performing loans. Accrual of interest is discontinued on a loan when management believes, after considering collection efforts and other factors that the borrower's financial condition is such that the collection of interest is doubtful. Non-performing notes are those in the non-accrual status. There were no loans past due at December 31, 2013, accordingly no allowance is established for the year then ended.

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**NOTE 3 - INVESTMENTS**

The Conference has agreements with the Iowa United Methodist Foundation (the Foundation) and the General Board of Pensions and Health Benefits of the United Methodist Church (the General Board) in which the Foundation and the General Board act as agents and investment managers of the Conference's investments as well as other organizations related to the United Methodist churches. These investments are pooled into larger investment funds at the Foundation and the General Board. Investments are comprised primarily of approved equity securities, fixed income and money market instruments in accordance with investment objectives.

Investments as of December 31, 2013 and 2012, are as follows:

	Fair Value	
	<u>2013</u>	<u>2012</u>
General Board of Pensions and Health Benefits of the United Methodist Church:		
Pooled deposit investment fund	\$ 2,299,006	\$ 248,971
Pooled retirees benefit investment fund	13,854,918	13,435,565
Pooled permanent investment fund	6,143,495	6,289,777
Pooled retirees medical investment fund	17,989,068	9,500,387
Iowa United Methodist Foundation:		
Pooled investment fund	2,334,784	2,132,583
Corporate bonds	626,956	631,810
Certificate of participation at cost, which approximates fair value	796,938	790,000
Independent investment managers:		
Legacy fund	1,005,479	928,856
Priscilla investment fund	141,547	112,256
Conference center investment fund	78,263	78,404
Beinke trust	21,700	25,507
Future budget fund	-	648,421
Investment in farm operations, at cost	-	1,455,790
	<u>\$ 45,292,154</u>	<u>\$ 36,278,327</u>

The Conference invests in various investment securities. Investment securities are exposed to various risks such as interest rate, market and credit risks. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in the values of investment securities will occur in the near term and that such change could materially affect the amounts reported in the statements of financial position.

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(Continued)

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**NOTE 4 - PROPERTY AND EQUIPMENT**

As of December 31, 2013 and 2012, property and equipment consisted of the following:

	<u>2013</u>	<u>2012</u>
Land and improvements	\$ 1,322,762	\$ 1,322,762
Buildings and improvements	12,524,981	12,042,614
Furniture and equipment	2,458,150	2,283,831
Construction in progress	<u>-</u>	<u>394,444</u>
	16,305,893	16,043,651
Less accumulated depreciation	<u>6,525,813</u>	<u>5,940,184</u>
Net property and equipment	<u>\$ 9,780,080</u>	<u>\$ 10,103,467</u>

**NOTE 5 - NOTES PAYABLE AND PLEDGED ASSETS**

Notes payable consist of mortgages on certain properties owned by the Conference. During January 2012, the Conference refinanced three of its notes payable to obtain lower interest rates. Notes payable as of December 31, 2013 and 2012, consisted of the following:

	<u>2013</u>	<u>2012</u>
Note payable to bank, due in monthly installments of \$21,375, including interest at a fixed rate of 5.75%, with the remaining principal balance due April 2020. Effective January 2012, the loan was amended to require monthly installments of \$20,352, including interest at a fixed rate of 4.65%, with the remaining principal due January 15, 2017. The note is secured by the Conference property located in Des Moines, Iowa.	\$ 1,337,804	\$ 1,514,410
Note payable to bank, due in monthly installments of \$1,300, including interest at 5.45%, maturing in May 2020. In January 2012, the loan was amended to require monthly installments of \$1,326, including interest at a fixed rate of 4.65%, with the remaining principal due January 9, 2017. The note is secured by the director's residence located at the Okoboji Camp and Retreat Center.	64,776	77,315
Note payable to bank, due in monthly installments of \$3,383, including interest at 7.25%, with the remaining principal balance due in September 2021. Effective January 2012, the loan was amended to require monthly installments of \$2,349, including interest at a fixed rate of 4.65%, with the remaining principal due on January 7, 2017. The note is secured by the Episcopal residence located in Norwalk, Iowa.	259,126	274,688

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IOWA ANNUAL CONFERENCE OF THE UNITED  
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**NOTE 5 - NOTES PAYABLE AND PLEDGED ASSETS (Continued)**

	<u>2013</u>	<u>2012</u>
Mortgage note payable, Iowa United Methodist Foundation, payable in 180 monthly installments of \$1,810, including interest at 4.87% with the balance due on July 7, 2027. The note is secured by the Wesley Woods Camp located in Indianola, Iowa.	<u>\$ 215,478</u>	<u>\$ 226,410</u>
	<u>\$ 1,877,184</u>	<u>\$ 2,092,823</u>

Aggregate maturities of long-term debt by year, which reflect the amendments made in January 2012, are as follows:

Year ending December 31:	
2014	\$ 226,057
2015	236,966
2016	248,244
2017	999,886
2018	13,938
Thereafter	<u>152,093</u>
	<u>\$ 1,877,184</u>

The interest cost incurred during the years ended December 31, 2013 and 2012, totaled approximately \$94,395 and \$99,000, respectively. Interest costs incurred to the Foundation during the years ended December 31, 2013 and 2012, totaled \$10,784 and \$4,648, respectively.

**NOTE 6 - PASS-THROUGH LIABILITIES**

Pass-through liabilities at December 31 are as follows:

	January 1, <u>2013</u>	<u>Year Ended December 31, 2013</u>		December 31, <u>2013</u>
		<u>Receipts</u>	<u>Disbursements</u>	
General church agencies	\$ 252,976	\$ 3,543,157	\$ 3,550,393	\$ 245,740
North central jurisdiction	(1,088)	22,673	21,585	-
Heifer Project International	13,655	86,653	79,231	21,077
Conference advance specials	27,899	134,144	143,586	18,457
Other benevolences	12,054	109,956	102,556	19,454
Institutional gifts	<u>491</u>	<u>5,167</u>	<u>5,619</u>	<u>39</u>
	<u>\$ 305,987</u>	<u>\$ 3,901,750</u>	<u>\$ 3,902,970</u>	<u>\$ 304,767</u>

(Continued)

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**NOTE 6 - PASS-THROUGH LIABILITIES (Continued)**

	January 1, <u>2012</u>	<u>Year Ended December 31, 2012</u>		December 31, <u>2012</u>
		<u>Receipts</u>	<u>Disbursements</u>	
General church agencies	\$ 38,584	\$ 3,605,898	\$ 3,391,506	\$ 252,976
North central jurisdiction	1,089	22,859	25,036	(1,088)
Heifer Project International	32,838	83,466	102,649	13,655
Conference advance specials	28,789	159,909	160,799	27,899
Other benevolences	(588)	122,882	110,240	12,054
Institutional gifts	<u>2,183</u>	<u>5,535</u>	<u>7,227</u>	<u>491</u>
	<u>\$ 102,895</u>	<u>\$ 4,000,549</u>	<u>\$ 3,797,457</u>	<u>\$ 305,987</u>

**NOTE 7 - RETIREMENT BENEFITS**

The Conference participates in various pension and disability benefit programs administered by the General Board of Pensions and Health Benefits of the United Methodist Church (General Board) incorporated in the State of Illinois. Annual contributions to the programs are funded through a combination of direct billing and apportionments to the various member churches of the Conference and from earnings on investments.

The pension plan (the "Plan") consists of three parts covering the three different service periods:

- CRSP for service beginning January 1, 2007
- MPP for service from January 1, 1982 through December 31, 2006, and
- Supplement One to the MPP (as of January 1, 2007 Supplement One to the CRSP) for service prior to 1982 (Pre-1982 Pension Plan).

Clergy Retirement Security Program (CRSP): Effective January 1, 2007, eligible clergy are provided pension coverage under the CRSP. The CRSP is an amendment to and restatement of the Ministerial Pension Plan (MPP) in effect prior to 2007.

Benefits to be provided under the CRSP consist of two components:

- A multi-employer defined benefit component based on the Denominational Average Compensation (DAC) and
- A defined contribution component providing for a contribution of at least 3% of actual compensation.

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(Continued)

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**NOTE 7 - RETIREMENT BENEFITS** (Continued)

Benefits to be provided under the CRSP starting January 1, 2014 will consist of two components:

- A multi-employer defined benefit component based on the Denominational Average Compensation (DAC) and
- A defined contribution (DC) component providing for a contribution of 2% of actual compensation into the Revised CRSP DC account. In addition, the Conference will match a participant's contributions to the United Methodist Personal Investment Plan (UMPIP) – up to 1% of actual compensation – and deposit those matching funds into the participants DC account. Therefore, if a participant contributes at least 1% of their actual compensation to UMPIP, his or her CRSP DC contributions will be 3%.

Annual contributions by the Conference will be determined by General Board actuaries as defined in the plan agreement. The Conference was responsible for a contribution of \$3,263,204 and \$3,308,400 for the years ended December 31, 2013 and 2012, respectively. \$2,373,460 is required for 2014 and \$2,426,009 for 2015. The Conference billed member churches 13% and 15% of compensation in 2013 and 2012 to fund required contributions to the Plan. In 2014, the Conference plans to bill member churches 15%.

Ministerial Pension Plan (MPP): This plan provided benefits for clergy from January 1, 1982 through December 31, 2006. It was primarily a defined contribution retirement plan with the requirement that at retirement clergy must convert at least 75% of his or her total account balance to an annuity. This annuity is a defined benefit feature. This plan was frozen effective December 31, 2006; no contribution was required in 2013. No contribution is required for 2014 or 2015. Future contributions will depend on the funded status of the plan and is determined on a year-to-year basis.

Pre-1982 Pension Plan (Pre-1982): Prior to January 1, 1982, eligible clergy were provided pension benefits under the Ministers Reserve Pension Fund which was operated as a multi-employer defined benefit plan. Clergy were entitled to a monthly pension benefit calculated as years of service times the annuity rate divided by twelve. Each year, the Conference sets the annuity rate. The 2013 annuity rate was \$601 and in 2014 the annuity rate will be \$610, which represents 1% of Conference Annual Compensation (CAC). Each year, the Board of Pensions consults with plan actuaries to determine the funding status of this plan. No contribution was required in 2013. No contribution is required in 2014 or 2015. Future contributions will depend on the funded status of the plan and is determined on a year-to-year basis.

The Plan, a multi-employer plan, is a non-electing church plan under Internal Revenue Code §414(e) and §410(d). As such, it is exempt from the minimum funding requirements of ERISA, the Pension Protection Act of 2006 (PPA), and Internal Revenue Code §§412 and 430-436 (see §412(e)(2)(D)). Accordingly, no PPA funding improvement plan or "zoning" funding requirements apply. Further, the Plan is exempt from filing a Form 5500. As of January 1, 2013, the date for which the most current information is available, the Pre-1982 plan had assets of \$2,439,400,612 and liabilities of \$3,141,136,784 for a net unfunded status of \$(701,736,172). As of January 1, 2013, the date for which the most current information is available, the CRSP-DB and MPP plans had assets of \$3,972,939,681 and liabilities of \$3,669,158,983 for a net funded status of \$303,780,698.

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**NOTE 7 - RETIREMENT BENEFITS** (Continued)

The Plan described above is administered by the General Board and is considered a multiemployer plan (EIN 56-6658844). The Conference's participation in this plan covers 621 clergy in the Pre-82 plan, 1,414 clergy in the MPP Annuities plan, and 737 clergy in the CRSP-DB plan. There have been no significant changes that affect the comparability of 2013 and 2012 contributions.

This Plan covers three service periods and is therefore managed as three sub-plans (Pre-1982, MPP Annuities, and CRSP-DB) since the benefit structure differs for each of the service periods, although the funding for any of the sub-plans can, under certain circumstances, cover any of the other sub-plans. This Plan is a multiemployer plan only under the FASB Accounting Standards Codification's Master Glossary definition. It is not a multiemployer plan under Internal Revenue Code §414(f) (i.e., a Taft-Hartley union-management plan) because no unions or union contracts are involved. The Plan's provisions are governed by the General Conference, a United Methodist Church-wide decision-making body composed of 50% clergy and 50% lay delegates that meets once every four years. Changes to Plan provisions are not allowed between General Conferences except to the extent they are required to maintain compliance with secular law. The next meeting of the General Conference is in April 2016.

The risks of participating in these multiemployer sub-plans are different from single-employer plans in the following respects:

- a) Assets contributed to the multiemployer plan by one annual conference (aka, conference) may be used to provide benefits to clergy of other U.S. United Methodist Church annual conferences.
- b) If an annual conference stops contributing to the plan, the unfunded obligations of the plan may be borne by the remaining participating annual conferences.

In addition to contributions to multiemployer retirement plans, the Conference provides severance benefits for eligible employees. Severance benefits are based on a combination of wages and length of service.

United Methodist Personal Investment Plan (UMPIP): The Conference participates in the UMPIP. The plan allows both the employer and the employee to make contributions into this plan. The Conference contributes 6% of a lay employee's compensation into this plan for permanent and full-time or part-time employees provided the part-time employee works at least 1,000 hours per year. Clergy and lay employees may choose to participate in this plan as either a before-tax or after-tax payroll deduction. Contributions are limited for both clergy and lay employees to the Internal Revenue Code requirements of section 403(b) plans.

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IOWA ANNUAL CONFERENCE OF THE UNITED  
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**NOTE 8 - HEALTH AND POSTRETIREMENT HEALTH INSURANCE PLAN**

The Conference provides health benefits (medical, hospital, surgical and major medical) to full-time and part-time clergy and Conference lay employees who are employed no less than 30 hours per week. The health insurance contract consists of mandatory single coverage for all clergy of the Conference and all lay employees of the Conference who are employed at least three-quarter time. The plans are administered by Wellmark Blue Cross/Blue Shield of Iowa.

The Conference sponsors a postretirement health benefit for all retired clergy and lay employees that meet the eligibility requirements. The plan is contributory with retiree contributions that are adjustable annually based on various factors – some of which are discretionary. The plan is unfunded; however, during the year ended December 31, 2006, the Board of Directors of the Board of Pensions designated approximately \$7,250,000 plus earnings thereon. During the year ended December 31, 2013, farmland designated for the payment of the unfunded benefit obligation was sold. Net proceeds on this transaction of approximately \$6,223,000 were added to the retirees medical investment fund.

In 2009, the Conference amended its health plan to reduce its contribution from two-thirds of total premiums to a flat monthly contribution of \$100 per person. In 2010, the Conference further amended its health plan beginning January 2012 in which Conference contributions will decrease annually by \$20 per month for any person retiring after January 1, 2012 and will cease at the end of five years. Retired participants over age 65 on January 1, 2012 will continue to receive the \$100 per month for their lifetime.

During 2013, retired clergy and their spouses could select from a variety of Medicare Supplement Plans. The Conference Board of Pensions contracted with Extend Health to administer the plans.

Total contributions to retirement plans and health benefits are as follows:

	<u>2013</u>	<u>2012</u>
CRSP (Note 7)	\$ 4,070,924	\$ 4,114,643
MPP (Note 7)	-	-
Pre-1982 (Note 7)	-	-
UMPIP (Note 7)	123,411	126,405
Health, current and retired employees (Note 8)	7,194,618	7,431,524
CPP (Note 9)	826,744	-
BPP (Note 9)	<u>32,143</u>	<u>31,850</u>
	12,247,840	11,704,422
Less amount reimbursed through direct billing to member churches	<u>(10,108,541)</u>	<u>(10,871,244)</u>
Actuarial adjustments to health plan (Note 8)	<u>(1,902,408)</u>	<u>268,520</u>
Total amount paid by (reimbursed to) the Conference	<u>\$ 236,891</u>	<u>\$ 1,101,698</u>

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(Continued)

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**NOTE 8 - HEALTH AND POSTRETIREMENT HEALTH INSURANCE PLAN** (Continued)

Information relative to the Conference's postretirement health benefit plan is presented below:

	<u>2013</u>	<u>2012</u>
Changes in benefit obligations:		
Obligation at beginning of year	\$ (17,470,182)	\$ (17,201,662)
Service cost	(373,209)	(349,985)
Interest cost	(589,373)	(622,559)
Benefit payments, net	1,603,080	1,200,196
Actuarial gain (loss)	<u>1,261,910</u>	<u>(496,172)</u>
Obligation at end of year	(15,567,774)	(17,470,182)
Fair value of plan assets at end of year	<u>-</u>	<u>-</u>
Funded status	<u>\$ (15,567,774)</u>	<u>\$ (17,470,182)</u>
Amounts recognized in unrestricted net assets but not yet recognized as components of net periodic postretirement benefit cost:		
Unamortized prior service cost	\$ (10,636,523)	\$ (13,075,586)
Unamortized actuarial loss	<u>3,352,755</u>	<u>5,334,680</u>
Total recognized in unrestricted net assets	<u>\$ (7,283,768)</u>	<u>\$ (7,740,906)</u>
Components of net periodic pension cost:		
Service cost	\$ 373,209	\$ 349,985
Interest cost	589,373	622,559
Amortization of prior service cost	(2,439,063)	(2,877,101)
Amortization of net loss	<u>378,845</u>	<u>368,598</u>
	<u>\$ (1,097,636)</u>	<u>\$ (1,535,959)</u>
Assumptions used in computations:		
Discount rate	4.30%	3.50%

The Conference measures plan obligations as of the year end statement of financial position date. For measurement purposes, a 7.5% annual rate of increase in the per capita costs of covered health care benefits was assumed for 2013 and 2012; the rate was assumed to decrease gradually to 5% in 2019 and remain at 5% thereafter. If the assumed rate increased by one percentage point, it would increase the benefit obligation as of December 31, 2013, by approximately \$1,053,000. A one-percentage-point decrease would decrease the benefit obligation by approximately \$887,000.

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**NOTE 8 - HEALTH AND POSTRETIREMENT HEALTH INSURANCE PLAN (Continued)**

The following approximate benefit payments are expected to be paid as follows:

Year ended December 31:	<u>Expected Future Annual Payments</u>
2014	\$ 1,256,632
2015	1,333,695
2016	1,383,028
2017	1,414,788
2018	1,480,266
Years 2019 - 2023	6,672,691

**NOTE 9 - DISABILITY AND LIFE INSURANCE PLANS**

Comprehensive Protection Plan (CPP): The Conference participates in the CPP for all clergy who are eligible and participate in the CRSP. The plan provides disability benefits for those clergy who meet the General Board definition of disability. The plan includes a death benefit for qualified active and retired clergy, spouses and dependent children. The General Board offered a premium holiday to Annual Conferences, which the Conference accepted for the years 2012 and 2013. Beginning in 2013, a premium of 3% of compensation was required which totaled \$827,000. Estimated contributions of \$845,000 and \$902,000 will be required for 2014 and 2015, respectively.

Lay Long-Term Disability and Life Insurance Plan formally known as the Basic Protection Plan (BPP): The Conference participates in the BPP which provides disability and death benefits for Conference lay employees that meet the eligibility requirements.

**NOTE 10 - LEASE COMMITMENTS**

The Conference leases several of its copy machines with accessory attachments and mailing equipment machines under noncancelable agreements as operating leases. Monthly rent for the equipment totals \$2,525 and the leases expire from September 2016 through August 2018. The Conference leases cars for eligible employees that total \$10,814 per month and the leases expire from March 2014 to March 2019.

The Conference leases office space for the Office of Pastoral Care and Counseling, Justice for Our Neighbors program and six district offices as of December 31, 2013. These leases are for terms ranging from one to four years totaling \$11,266 per month and include utilities and general building repairs. The termination dates for these leases range from June 2014 to October 2017. Additionally, the Conference has a month-to-month lease arrangement for two district offices.

During 2012 and 2013, the Conference entered into noncancelable leases of office equipment under capital lease agreements with a cost of \$416,758 and \$408,521 and accumulated depreciation of \$390,634 and \$371,845 as of December 31, 2013 and 2012. The office equipment and related liability under the leases are recorded at the present value of the future minimum lease payments.

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**NOTE 10 - LEASE COMMITMENTS** (Continued)

As of December 31, 2013, minimum lease payments required under the leases described above are as follows:

	<u>Capital Leases</u>	<u>Operating Leases</u>		
	<u>Equipment</u>	<u>Property</u>	<u>Equipment</u>	<u>Total</u>
Year ending December 31:				
2014	\$ 56,605	\$ 134,199	\$ 149,457	\$ 340,261
2015	27,089	105,902	123,109	256,100
2016	8,915	85,361	94,688	188,964
2017	1,975	46,420	68,735	117,130
2018	-	-	26,476	26,476
Total minimum lease payments	<u>94,584</u>	<u>\$ 371,882</u>	<u>\$ 462,465</u>	<u>\$ 928,931</u>
Less amounts representing interest	<u>(2,717)</u>			
Present value of future minimum lease payments	<u>\$ 91,867</u>			

Rent expense related to above lease commitments totaled \$379,429 and \$407,535 for the years ended December 31, 2013 and 2012, respectively.

**NOTE 11 - NET ASSETS**

Unrestricted and undesignated net assets as of December 31, 2013 and 2012, are as follows:

	<u>2013</u>	<u>2012</u>
Working capital reserve	<u>\$ 1,342,947</u>	<u>\$ 2,059,246</u>

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**NOTE 11 - NET ASSETS** (Continued)

Unrestricted funds, designated for specific purposes as of December 31, 2013 and 2012, are as follows:

	<u>2013</u>	<u>2012</u>
Board of Camps	\$ 329,658	\$ 307,584
Board of Church and Society	2,015	1,077
Board of Discipleship	37,012	43,599
Board of Global Ministries	1,032,733	894,567
Board of Higher Education	27,580	3,169
Board of Laity	37,447	44,906
Board of Ordained Ministry	241,889	215,238
Board of Pensions: including unamortized prior service cost and actuarial gains on health benefit liability (Note 8) of \$7,283,768 and \$7,740,906 at December 31, 2013 and 2012, respectively	26,307,805	15,855,403
Board of Trustees	10,322,358	9,603,090
Commission on Archives and History	40,533	33,061
Commission on Christian Unity and Interreligious Concerns	4,384	3,229
Commission on Equitable Compensation	-	262,761
Commission on Ministry with Persons with Disabilities	57,475	(379)
Commission on Religion and Race	1,460	58,099
Commission on Status and Role of Women	-	305
Committees on Annual Conference Administration	-	(104,051)
Committee on Pastoral Care and Counseling	-	43,403
Council on Finance and Administration, adjustments for accounting principles generally accepted in the United States of America, cash to accrual adjustment	(1,796,539)	(2,134,085)
Connectional Ministries Council	9,584	34,059
Council on Youth Ministries	20,999	23,934
Council on Young and Older Adults	23,271	23,801
Council on Older Adults	15,143	10,484
Episcopal Funds	47,321	67,313
District Administrative Funds	-	(466,876)
District Councils on Ministries	140,346	198,266
Other District Program Funds	109,022	108,824
Westmar Scholarship Fund	12,000	5,000
Clergy Support Programs	-	10,362
Other Program and Investment Funds	163,009	114,804
Total unrestricted funds designated for specific purposes	<u>\$ 37,186,505</u>	<u>\$ 25,260,947</u>

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**NOTE 11 - NET ASSETS** (Continued)

Temporarily restricted net assets as of December 31, 2013 and 2012, are as follows:

	<u>2013</u>	<u>2012</u>
Board of Camps	\$ 171,291	\$ 127,279
Board of Church and Society	38,622	39,526
Board of Discipleship	28,224	30,913
Board of Global Ministries	1,123,561	1,396,276
Board of Higher Education	2,243	3,243
Board of Laity	100	230
Board of Ordained Ministries	2,000	2,000
Board of Trustees	619,055	402,787
Commission on Archives and History	53,042	57,263
Commission on Ministry with Persons with Disabilities	1,528	6,795
Commission on Religion and Race	11,021	11,521
Committees on Annual Conference Administration	13,189	14,059
Council on Finance and Administration, adjustments for accounting principles generally accepted in the United States of America, cash to accrual adjustment	(8,412)	(113,751)
Council on Connectional Ministries	138,836	138,272
Council on Youth Ministries	2,255	379
Councils on Young and Older Adults	51	274
Episcopal Funds	67,506	78,605
District Connectional Ministries Councils	1,374	1,018
Other District Program Funds	414,781	385,865
Other Program and Investment Funds	<u>578,473</u>	<u>483,924</u>
 Total temporarily restricted net assets	 <u>\$ 3,258,740</u>	 <u>\$ 3,066,478</u>

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**NOTE 11 - NET ASSETS** (Continued)

Permanently restricted net assets as of December 31, 2013 and 2012, are as follows:

	<u>2013</u>	<u>2012</u>
Westmar college scholarship endowment (a)	\$ 845,374	\$ 843,375
College scholarship endowments (a)	286,303	328,127
Garland Estate Trust (b)	2,302,679	2,040,077
Beneficial interest in perpetual trusts (c)	252,247	231,135
Campership endowments (d)	73,445	73,446
Camp's maintenance/operating endowments (e)	141,506	126,506
Board of Global Ministries endowments (f)	100,765	58,150
Partners in Leadership scholarship endowment (g)	<u>35,073</u>	<u>35,073</u>
	<u>\$ 4,037,392</u>	<u>\$ 3,735,889</u>

- (a) Earnings from the college scholarship endowments are temporarily restricted and used to provide scholarships to attend various United Methodist affiliated colleges.
- (b) Earnings from the Garland Estate Trust are unrestricted and have been board designated for the expenses of the Episcopal Residence.
- (c) Earnings from the perpetual trusts of the Iowa Annual Conference are temporarily restricted funds that are used to provide assistance to individuals who might not otherwise be able to attend United Methodist camps. Earnings from the perpetual trusts of the Board of Pensions are temporarily restricted funds to be used to supplement the pension fund.
- (d) Earnings from the campership endowments are temporarily restricted funds that are used to provide assistance to individuals who might not be able to otherwise attend United Methodist camps.
- (e) Earnings from the camp's maintenance endowment are temporarily restricted funds that are used for the maintenance of camp buildings constructed with campaign funds. Earnings from the camp's operating endowment funds are temporarily restricted for the camp's operational use.
- (f) Earnings from the Board of Global Ministries endowment for congregational development are temporarily restricted funds to help churches with new church development. Earnings from the Hispanic ministry endowment are temporarily restricted funds for the development of Hispanic Ministries.
- (g) Earnings from the Partners in Leadership scholarship endowment are temporarily restricted and are used as scholarships for Iowa resident United Methodist students attending one of our four Iowa United Methodist related colleges.

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**NOTE 12 - RELATED-PARTY TRANSACTIONS**

In 2012, the Conference approved a 2013 apportionment request of \$21,060 to support activities of the Foundation. During 2013, the local United Methodist Churches remitted \$22,923 for payment to the Foundation.

The Conference received from the Foundation \$13,499 and \$12,994 for administrative services such as rent, telephone, postage and printing for the years ended December 31, 2013 and 2012, respectively.

In 2012, the Conference received a loan from the Foundation loan program in the amount of \$230,810 to pay for the maintenance of the Wesley Woods camp. There was \$215,478 outstanding on this loan at December 31, 2013 (Note 5).

**NOTE 13 - APPORTIONMENTS, NET**

Apportionments (including pass-through amounts not recognized in the statement of activities of \$2,338,861 and \$2,391,480 for the years ended December 31, 2013 and 2012, respectively) totaled \$15,674,805 and \$15,624,566 for the years ended December 31, 2013 and 2012, respectively. Of these amounts, \$2,465,117 and \$2,252,897, respectively, were not received and are netted against apportionment revenue.

**NOTE 14 - CONTINGENCIES**

The Board of Global Ministries of the Conference has provided the following guarantees as of December 31, 2013 and 2012, for no consideration:

Christ Community United Methodist Church, Marion, Iowa: The Conference has provided a guarantee of a loan balance on behalf of the member church and United Methodist Development Fund. The maximum amount of the guarantee by the Conference is equal to the loan balance. The loan balance at December 31, 2013, was approximately \$321,000. The Conference would be required to perform under the guarantee if the member church was in default in accordance with the loan agreement. The loan guarantee expires July 2014.

Faith United Methodist Church, Centerville, Iowa: The Conference provided a limited guarantee up to \$150,000 of indebtedness on behalf of the member church for a loan provided by the Foundation. The Conference would be required to perform under the guarantee if the member church was in default in accordance with the loan agreement. As collateral for the loan guarantee, the Conference invested in a \$150,000 Certificate of Participation held by the Foundation. The loan guarantee was scheduled to expire September 2010; however, the guarantee was extended by board resolution indefinitely.

Des Moines Bloomfield: The Conference provided a limited guarantee up to \$100,000 of indebtedness on behalf of the member church for a loan provided by the Foundation. The Conference would be required to perform under the guarantee if the member church was in default in accordance with the loan agreement. The guarantee is provided indefinitely.

Management evaluates the Conference's exposure to loss at each financial position date and provides accruals for such loss as deemed necessary. No accruals were deemed necessary as of December 31, 2013 and 2012. If the Conference is required to perform on the guarantees, it has designated funds from investments of approximately \$250,000.

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**NOTE 14 – CONTINGENCIES (Continued)**

The Conference assumes assets and liabilities associated with churches that were abandoned or closed during the year. The Conference recorded net expenses of \$0 and \$49,307 associated with assets and liabilities assumed related to abandoned churches for the years ended December 31, 2013 and 2012 respectively. Included in accounts payable are liabilities associated with abandoned churches of \$0 and \$193,363 for the years ended December 31, 2013 and 2012, respectively.

**NOTE 15 - ENDOWMENT**

The Conference has established 15 individual endowment funds consisting of cash, securities and other assets for the purposes of maintaining a variety of programs. The endowment funds include both donor-restricted endowment funds (permanent endowment) and funds designated by various Conference Boards to function as endowments. As required by U.S. GAAP, net assets associated with these funds, are classified and reported based on the existence or absence of donor-imposed restrictions.

The Conference has interpreted the Iowa Uniform Prudent Management of Institutional Funds Act (UPMIFA) as requiring the preservation of the fair value of the original gift as of the gift date for all donor-restricted endowment funds, absent explicit donor stipulations to the contrary. As a result, 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 permanent 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 in a manner consistent with the standard of prudence prescribed by UPMIFA. All board-designated endowments are classified as unrestricted net assets. In accordance with UPMIFA, the Conference considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

- (1) The duration and preservation of the fund
- (2) The purposes of the organization and the donor-restricted endowment fund
- (3) General economic conditions
- (4) The possible effect of inflation and deflation
- (5) The expected total return from income and the appreciation of investments
- (6) Other resources of the Conference
- (7) The Conference's investment policies

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**NOTE 15 – ENDOWMENT** (Continued)

Endowment net asset composition by type of fund as of December 31 is as follows:

	2013			
	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Donor-restricted endowment funds	\$ 22,500	\$ 564,751	\$ 1,482,466	\$ 2,069,717
Board-designated endowment funds	7,323,215	455,024	-	7,778,239
	<u>\$ 7,345,715</u>	<u>\$ 1,019,775</u>	<u>\$ 1,482,466</u>	<u>\$ 9,847,956</u>
	2012			
	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Donor-restricted endowment funds	\$ 20,136	\$ 294,414	\$ 1,464,677	\$ 1,779,227
Board-designated endowment funds	7,391,383	455,245	-	7,846,628
	<u>\$ 7,411,519</u>	<u>\$ 749,659</u>	<u>\$ 1,464,677</u>	<u>\$ 9,625,855</u>

Changes in endowment net assets for the years ended December 31, 2013 and 2012, are as follows:

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**NOTE 15 – ENDOWMENT** (Continued)

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment net assets, January 1, 2012	\$ 6,588,564	\$ 653,272	\$ 1,435,609	8,677,445
Investment return:				
Investment income	392,059	33,377	-	425,436
Net realized and unrealized gain on investments	<u>382,333</u>	<u>141,767</u>	-	<u>524,100</u>
Total investment return	774,392	175,144	-	949,536
Contributions	-	169	29,068	29,237
Appropriation of endowment assets for expenditure	78,926	(78,926)	-	-
Expenditures	<u>(30,363)</u>	<u>-</u>	<u>-</u>	<u>(30,363)</u>
Endowment net assets, December 31, 2012	7,411,519	749,659	1,464,677	9,625,855
Investment return:				
Investment income	162,090	33,464	-	195,554
Net realized and unrealized gain on investments	<u>871,582</u>	<u>274,214</u>	-	<u>1,145,796</u>
Total investment return	1,033,672	307,678	-	1,341,350
Contributions	-	560	17,789	18,349
Appropriation of endowment assets for expenditure	38,122	(38,122)	-	-
Expenditures	<u>(1,137,598)</u>	<u>-</u>	<u>-</u>	<u>(1,137,598)</u>
Endowment net assets, December 31, 2013	<u>\$ 7,345,715</u>	<u>\$ 1,019,775</u>	<u>\$ 1,482,466</u>	<u>\$ 9,847,956</u>

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**NOTE 15 - ENDOWMENT (Continued)**

All temporarily restricted endowments are purpose restricted and included in the amounts disclosed in Note 11.

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 state law requires the Conference to retain as a fund of perpetual duration. In accordance with U.S. GAAP, deficiencies of this nature are reported in unrestricted net assets. There were no deficiencies as of December 31, 2013 and 2012.

Return Objectives and Risk Parameters: The Conference has adopted investment and spending policies for endowment assets and other invested funds that attempt to (1) preserve principle and purchasing power; (2) achieve a greater return than the rate of inflation, consistent with the fiduciary character of the fund; and (3) maintain a level of liquidity that is sufficient to meet the need for timely payments of designated projects. Endowment assets include those assets of donor-restricted funds that the organization must hold in perpetuity or for a donor-specified period as well as board-designated funds. Under this policy, as approved by the various governing boards, the endowment assets are invested in a manner that intends to produce results over a five year market cycle that exceeds the price and yield results of 60%-70% of the S&P 500 stock index and 30%-40% of an Intermediate Government/Corporate Bond Index. Depending on the nature of the fund, the Conference expects its endowment funds, over time, to provide an average rate of return of approximately 5-7% annually. Actual returns in any given year may vary from this amount. The board-designated endowment fund, maintained to provide pension and other post-retirement benefits for retired clergy, is currently invested to satisfy a growth objective while assuming a moderate level of investment 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 balances fixed income investments and equity securities to achieve its long-term objectives within prudent risk constraints.

Spending Policy and How the Investment Objectives Relate to Spending Policy: The spending policy is determined by the Foundation who manages the distribution of the donor-restricted permanent endowments. The board-designated pension and post-retirement funds are determined on a per fund basis.

**NOTE 16 - FAIR VALUE FINANCIAL INSTRUMENTS**

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants. The FASB requires the use of valuation techniques that are consistent with the market approach, the income approach and/or the cost approach. Inputs to valuation techniques refer to the assumptions that market participants would use in pricing the asset or liability. Inputs may be observable, meaning those that reflect the assumptions market participants would use in pricing the asset or liability developed based on market data obtained from independent sources, or unobservable, meaning those that reflect the Conference's own assumptions about the assumptions market participants would use in pricing the asset or liability developed based on the best information available in the circumstances. In that regard, the accounting guidance establishes a fair value hierarchy for valuation inputs that give the highest priority to quoted prices in active markets for identical assets or liabilities and the lowest priority to unobservable inputs.

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**NOTE 16 - FAIR VALUE FINANCIAL INSTRUMENTS (Continued)**

The fair value hierarchy is as follows:

- Level 1: Quoted prices for identical assets or liabilities in active markets as of the report date.
- Level 2: Pricing inputs other than quoted prices in active markets, which are either directly or indirectly observable as of the report date. This includes valuations based on available quoted market prices, but traded less frequently and values derived by reference to other securities, the fair value of which can be directly observed.
- Level 3: Significant unobservable inputs that reflect management's judgment about the assumptions that market participants would use in pricing an asset or liability.

The Conference records certain financial assets at fair value on a recurring basis. A description of the valuation methodologies used for assets and liabilities measured at fair value is set forth below.

- *Investment in equity securities and money markets:* The Conference's equity securities are readily marketable and have fair values which are determined by obtaining quoted market prices in active markets (Level 1 inputs). These securities include highly liquid exchange traded equities. If quoted market prices are not available, then fair values are estimated by using the quoted price of securities in an inactive market to which the Conference has access.
- *Investment in fixed income securities:* Fair values of corporate bonds are determined based on quoted prices for similar instruments in active markets, quoted prices for identical or similar instruments in markets that are not active and other market-corroborated sources, such as indices, yield curves and matrix pricing (Level 2 inputs) [market approach].
- *Investment in pools:* The Conference's pooled investments are invested in the investment pools of the General Board of Pensions and the Foundation. The fair value of each of the Conference's portfolios is measured using a unitization method, with values differing according to the underlying securities of each pool. Security prices are based on quotes that are obtained from an independent pricing service. Fair values of securities for which market prices are not readily available are determined based upon quoted market close prices for similar issues, dealer quotes, or pricing models utilizing market observable inputs from comparable securities. This total fair value is divided by the total number of units in the pool to determine the per-share value that is assigned to the Conference's units. (Level 2 inputs) [market approach].
- *Beneficial interests in perpetual trusts:* The fair value of beneficial interests in trusts is determined based upon the Conference's proportional interest in the fair value of the underlying trust assets. The underlying trust assets are readily marketable and have fair values which are determined by obtaining quoted market prices in active markets. This valuation method has been estimated to represent the present value of future distributed income. The liquidation of these assets is contingent upon circumstances that are out of the Conference's control and cannot be liquidated on a periodic basis (Level 3 inputs) [income approach].

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**NOTE 16 - FAIR VALUE FINANCIAL INSTRUMENTS** (Continued)

The following tables summarize assets measured at fair value on a recurring basis as of December 31, 2013 and 2012, segregated by the level of valuation inputs within the fair value hierarchy:

	December 31, 2013			
	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
General Board, pooled investment funds:				
International equity fund	\$ -	\$ 5,780,298	\$ -	\$ 5,780,298
US equity fund	-	17,566,739	-	17,566,739
Fixed income fund	-	10,915,509	-	10,915,509
Short-term investment fund	-	6,023,941	-	6,023,941
Iowa United Methodist Foundation, pooled investment fund:				
Balance fund	-	2,334,784	-	2,334,784
Bond fund	-	626,956	-	626,956
Independent investment managers:				
Equity securities	464,441	-	-	464,441
Fixed income securities	-	301,252	-	301,252
Money market funds	481,296	-	-	481,296
	<u>481,296</u>	<u>-</u>	<u>-</u>	<u>481,296</u>
Total investments recorded at fair value	<u>\$ 945,737</u>	<u>\$ 43,549,479</u>	<u>\$ -</u>	44,495,216
Investments held at cost				<u>796,938</u>
Total investments				<u>\$ 45,292,154</u>
Other assets, beneficial interests in perpetual trusts	\$ -	\$ -	\$ 2,554,926	\$ 2,554,926

(Continued)

IOWA ANNUAL CONFERENCE OF THE UNITED  
METHODIST CHURCH AND AFFILIATE  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
December 31, 2013 and 2012

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**NOTE 16 - FAIR VALUE FINANCIAL INSTRUMENTS (Continued)**

	December 31, 2012			Total
	Level 1	Level 2	Level 3	
General Board,				
pooled investment funds:				
International equity fund	\$ -	\$ 4,439,030	\$ -	\$ 4,439,030
US equity fund	-	11,736,220	-	11,736,220
Fixed income fund	-	13,050,479	-	13,050,479
Short-term investment fund	-	248,971	-	248,971
Iowa United Methodist Foundation,				
pooled investment fund:				
Balance fund	-	2,132,583	-	2,132,583
Bond fund	-	631,810	-	631,810
Independent investment managers:				
Equity securities	342,426	-	-	342,426
Fixed income securities	-	917,995	-	917,995
Money market funds	533,023	-	-	533,023
Total investments recorded at fair value	\$ 875,449	\$ 33,157,088	\$ -	34,032,537
Investments held at cost				2,245,790
Total investments				\$ 36,278,327
Other assets, beneficial interests in perpetual trusts	\$ -	\$ -	\$ 2,271,212	\$ 2,271,212

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(Continued)

IOWA ANNUAL CONFERENCE OF THE UNITED  
METHODIST CHURCH AND AFFILIATE  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
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**NOTE 16 - FAIR VALUE FINANCIAL INSTRUMENTS** (Continued)

The following table presents additional information about assets measured at fair value on a recurring basis for which the Conference has utilized Level 3 inputs to determine fair value:

	Beneficial Interests in Perpetual Trusts
Beginning balance, January 1, 2012	\$ 2,103,487
New beneficial interest	2,050
Unrealized gains	<u>165,675</u>
Ending balance, December 31, 2012	2,271,212
New beneficial interest	1,106
Unrealized gains	<u>282,608</u>
Ending balance, December 31, 2013	<u>\$ 2,554,926</u>

Gains and losses are reported in net realized and unrealized gain on investments in the consolidated statement of activities.

The following table sets forth additional disclosures of the Conference's investments whose fair value is estimated using net asset value per share as of December 31, 2013.

	Fair <u>Value</u>	Unfunded <u>Commitment</u>	Redemption <u>Frequency</u>	Redemption <u>Notice Period</u>
Pooled investment funds:				
International equity fund (a)	\$ 5,780,298	\$ -	Immediate	None
U.S. equity fund (b)	17,566,739	-	Immediate	None
Fixed income fund (c)	10,915,509	-	Immediate	None
Short-term investment fund (d)	6,023,941	-	Immediate	None
Balanced fund (e)	2,334,784	-	Immediate	None
Bond fund (f)	<u>626,956</u>	-	Immediate	None
Total pooled investment funds	<u>\$ 43,248,227</u>			

Amounts held as of December 31, 2012 were subject to the same restrictions.

- (a) The international equity fund seeks to maximize long-term capital appreciation from a broadly diversified portfolio of non-U.S. stocks. Additionally, the fund holds securities of publicly traded non-U.S. real estate investment trusts (REITs) and limited partnership interests in private real estate partnerships and private equity (e.g., buyout funds and venture capital) with investments located in developed and developing countries. It also holds equity index futures of stock indexes in non-U.S. markets.

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(Continued)

IOWA ANNUAL CONFERENCE OF THE UNITED  
METHODIST CHURCH AND AFFILIATE  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
December 31, 2013 and 2012

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**NOTE 16 - FAIR VALUE FINANCIAL INSTRUMENTS (Continued)**

- (b) The U.S. equity fund seeks to earn long-term capital appreciation from a broadly diversified portfolio that includes stocks among the 3,000 largest U.S. publicly owned companies, as well as stock index futures. Additionally, the fund holds interests in publicly traded real estate investment trusts (REITs), private real estate partnerships and private equity (e.g., buyout funds and venture capital).
- (c) The fixed income fund invests in a broad mix of fixed-income instruments to earn current income. A majority of the fund is invested in publicly traded U.S. fixed-income securities but is also invested in fixed-income instruments denominated in currencies other than the U.S. dollar and the fund holds privately placed loans originated by the General Board's Positive Social Purpose (PSP) Lending Program.
- (d) The short-term investment fund is an actively managed bond fund that seeks to maximize current income consistent with preservation of capital. The fund's holdings include government and agency bonds, corporate bonds, international fixed income securities, commercial paper, certificates of deposit and other similar types of investments.
- (e) The balanced fund seeks to balance the objectives of long-term capital appreciation and present income. The fund is invested in a portfolio of fixed-income securities, equity securities (including foreign issuers and small capitalization companies), cash and cash equivalents, and other alternative investments.
- (f) The bond fund seeks to maximize present income. The fund is invested in a portfolio of fixed income securities (U.S. government notes and bonds, mortgage and asset backed securities, C.D.'s, corporate bonds, mutual funds and municipal bond mutual funds), with up to 15% of fixed income investments in preferred stock, securities convertible to common stock, real estate and other hybrid issues.

For all pooled investment funds, redemptions over \$1 million may be subject to a 15-day processing period to ensure adequate cash is available for distribution.

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(Continued)

IOWA ANNUAL CONFERENCE OF THE UNITED  
METHODIST CHURCH AND AFFILIATE  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
December 31, 2013 and 2012

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**NOTE 17 - UNCONSOLIDATED ENTITY**

U.S. GAAP requires 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. The Conference has an economic interest in, but does not control, the Foundation through ownership or voting interest, therefore the Foundation is not consolidated. Combination is permitted, but not required; the Conference has elected not to combine the Foundation.

Summarized financial information for the Foundation as of and for the year ended December 31, is as follows:

	<u>2013</u>	<u>2012</u>
<b>ASSETS</b>		
Cash and cash equivalents	\$ 83,568	\$ 83,068
Receivables	74,024	74,218
Investments	31,848,895	28,965,155
Land, buildings and equipment, net	<u>11,635</u>	<u>14,866</u>
	<u>\$ 32,018,122</u>	<u>\$ 29,137,307</u>
<b>LIABILITIES AND NET ASSETS</b>		
Accounts payable and accrued expenses	\$ 18,089	\$ 16,812
Agency payables	23,086,781	21,293,056
Gift annuities payable	<u>849,781</u>	<u>898,124</u>
<b>Total liabilities</b>	<u>23,954,651</u>	<u>22,207,992</u>
Net assets:		
Unrestricted	1,014,272	821,171
Temporarily restricted	3,726,643	3,211,077
Permanently restricted	<u>3,322,556</u>	<u>2,897,067</u>
<b>Total net assets</b>	<u>8,063,471</u>	<u>6,929,315</u>
	<u>\$ 32,018,122</u>	<u>\$ 29,137,307</u>

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(Continued)



IOWA ANNUAL CONFERENCE OF THE UNITED  
METHODIST CHURCH AND AFFILIATE  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
December 31, 2013 and 2012

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**NOTE 17 - UNCONSOLIDATED ENTITY (Continued)**

	<u>2013</u>	<u>2012</u>
Revenue, gains and other support:		
Contributions	\$ 311,198	\$ 52,738
Fees for investment services	332,910	320,100
Investment income	214,172	295,358
Net realized gain on investments	170,584	31,958
Unrealized gain on investments	771,000	591,409
Other income	17,500	27,500
Changes in value of split-interest agreements	48,343	(9,089)
Total revenue, gains and other support	<u>1,865,707</u>	<u>1,309,974</u>
Expenses:		
Management and general expenses	357,011	354,391
Beneficiary payments	<u>374,540</u>	<u>331,715</u>
Total expenses	<u>731,551</u>	<u>686,106</u>
Change in net assets	1,134,156	623,868
Net assets, beginning	<u>6,929,315</u>	<u>6,305,447</u>
Net assets, ending	<u>\$ 8,063,471</u>	<u>\$ 6,929,315</u>

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.

**SUPPLEMENTARY SCHEDULES**

IOWA ANNUAL CONFERENCE OF THE UNITED  
METHODIST CHURCH AND AFFILIATE  
CONSOLIDATING STATEMENT OF FINANCIAL POSITION  
December 31, 2013

	<u>Iowa Annual Conference</u>	<u>Board of Pensions</u>	<u>Eliminations</u>	<u>Consolidated Total</u>
<b>ASSETS</b>				
Cash and cash equivalents	\$ 2,989,233	\$ 1,511,642	\$ -	\$ 4,500,875
Receivables				
Apportionment receivables, net	1,427,674	94,980	(21,113)	1,501,541
Loans receivable, net	453,345	-	-	453,345
Other receivables	73,166	160,480	(747)	232,899
	<u>1,954,185</u>	<u>255,460</u>	<u>(21,860)</u>	<u>2,187,785</u>
Investments	5,005,666	40,286,488	-	45,292,154
Assets held for sale	2,000	-	-	2,000
Property and equipment, net	9,690,468	89,612	-	9,780,080
Other assets	<u>2,625,845</u>	<u>41,170</u>	<u>-</u>	<u>2,667,015</u>
Total assets	<u>\$ 22,267,397</u>	<u>\$ 42,184,372</u>	<u>\$ (21,860)</u>	<u>\$ 64,429,909</u>
<b>LIABILITIES AND NET ASSETS</b>				
Liabilities				
Accounts payable and accrued expenses	\$ 495,795	\$ 267,685	\$ (747)	\$ 762,733
Obligations under capital leases	91,867	-	-	91,867
Notes payable	1,877,184	-	-	1,877,184
Pass-through liabilities	325,880	-	(21,113)	304,767
Accrued postretirement benefit obligation	<u>-</u>	<u>15,567,774</u>	<u>-</u>	<u>15,567,774</u>
Total liabilities	<u>2,790,726</u>	<u>15,835,459</u>	<u>(21,860)</u>	<u>18,604,325</u>
Net assets				
Unrestricted	12,221,649	26,307,803	-	38,529,452
Temporarily restricted	3,258,740	-	-	3,258,740
Permanently restricted	3,996,282	41,110	-	4,037,392
Total net assets	<u>19,476,671</u>	<u>26,348,913</u>	<u>-</u>	<u>45,825,584</u>
Total liabilities and net assets	<u>\$ 22,267,397</u>	<u>\$ 42,184,372</u>	<u>\$ (21,860)</u>	<u>\$ 64,429,909</u>

See accompanying report of independent auditors.

IOWA ANNUAL CONFERENCE OF THE UNITED  
METHODIST CHURCH AND AFFILIATE  
CONSOLIDATING STATEMENT OF ACTIVITIES – UNRESTRICTED NET ASSETS  
Year ended December 31, 2013

	<u>Iowa Annual Conference</u>	<u>Board of Pensions</u>	<u>Eliminations</u>	<u>Consolidated Total</u>
Revenue, gains and other support				
Apportionments, net	\$ 10,363,743	\$ 507,084	\$ -	\$ 10,870,827
Charitable contributions and grants	13,591	75	-	13,666
Registration fees	1,276,528	1,470	(13,137)	1,264,861
Investment earnings	101,474	809,535	-	911,009
Sale of goods and services	148,846	-	(100,000)	48,846
Other revenue	250,617	10,147,314	(10,138,600)	259,331
Net assets released from restrictions, satisfaction of program restrictions	<u>2,443,675</u>	<u>-</u>	<u>-</u>	<u>2,443,675</u>
Total revenue, gains and other support	<u>14,598,474</u>	<u>11,465,478</u>	<u>(10,251,737)</u>	<u>15,812,215</u>
Expenses				
Program services				
Clergy support ministries	2,756,861	9,037,175	(10,113,444)	1,680,592
Local church support ministries	4,904,655	-	(7,475)	4,897,180
Institutional support ministries	1,469,203	-	-	1,469,203
Other ministries	<u>1,476,650</u>	<u>-</u>	<u>(696)</u>	<u>1,475,954</u>
	<u>10,607,369</u>	<u>9,037,175</u>	<u>(10,121,615)</u>	<u>9,522,929</u>
Supporting services				
General and administrative	3,104,220	579,338	(130,122)	3,553,436
Fund raising	<u>175,219</u>	<u>-</u>	<u>-</u>	<u>175,219</u>
	<u>3,279,439</u>	<u>579,338</u>	<u>(130,122)</u>	<u>3,728,655</u>
Total expenses	<u>13,886,808</u>	<u>9,616,513</u>	<u>(10,251,737)</u>	<u>13,251,584</u>
Changes in net assets before non-operating	711,666	1,848,965	-	2,560,631
Net realized and unrealized gain on investments	110,005	9,831,548	-	9,941,553
Gain on sale of property and equipment	41,602	-	-	41,602
Pension and post retirement health benefit plan changes other than net periodic benefit costs	<u>-</u>	<u>(1,334,527)</u>	<u>-</u>	<u>(1,334,527)</u>
Changes in net assets	863,273	10,345,986	-	11,209,259
Net assets, beginning of year	<u>11,464,790</u>	<u>15,855,403</u>	<u>-</u>	<u>27,320,193</u>
Net assets, end of year	<u>\$ 12,328,063</u>	<u>\$ 26,201,389</u>	<u>\$ -</u>	<u>\$ 38,529,452</u>

See accompanying report of independent auditors.

IOWA ANNUAL CONFERENCE OF THE UNITED  
METHODIST CHURCH AND AFFILIATE  
CONSOLIDATING STATEMENT OF ACTIVITIES – TEMPORARILY RESTRICTED NET ASSETS  
Year ended December 31, 2013

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	<u>Iowa Annual Conference</u>	<u>Board of Pensions</u>	<u>Eliminations</u>	<u>Consolidated Total</u>
Revenue, gains and other support				
District askings	\$ 236,108	\$ -	\$ -	\$ 236,108
Charitable contributions and grants	2,061,088	-	-	2,061,088
Investment earnings	45,634	-	-	45,634
Sale of goods and services	8,010	-	-	8,010
Other revenue	8,780	-	-	8,780
Net assets released from restrictions, satisfaction of program restrictions	<u>(2,443,675)</u>	<u>-</u>	<u>-</u>	<u>(2,443,675)</u>
Total revenue, gains and other support	<u>(84,055)</u>	<u>-</u>	<u>-</u>	<u>(84,055)</u>
Changes in net assets before non-operating	(84,055)	-	-	(84,055)
Net realized and unrealized gain on investments	<u>276,317</u>	<u>-</u>	<u>-</u>	<u>276,317</u>
Changes in net assets	192,262	-	-	192,262
Net assets, beginning of year	<u>3,066,478</u>	<u>-</u>	<u>-</u>	<u>3,066,478</u>
Net assets, end of year	<u>\$ 3,258,740</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 3,258,740</u>

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See accompanying report of independent auditors.

IOWA ANNUAL CONFERENCE OF THE UNITED  
METHODIST CHURCH AND AFFILIATE  
CONSOLIDATING STATEMENT OF ACTIVITIES – PERMANENTLY RESTRICTED NET ASSETS  
Year ended December 31, 2013

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	<u>Iowa Annual Conference</u>	<u>Board of Pensions</u>	<u>Eliminations</u>	<u>Consolidated Total</u>
Revenue, gains and other support				
Charitable contributions and grants	\$ 17,789	\$ -	\$ -	\$ 17,789
Total revenue, gains and other support	<u>17,789</u>	<u>-</u>	<u>-</u>	<u>17,789</u>
Changes in net assets before non-operating	17,789	-	-	17,789
Net realized and unrealized gain on investments	281,082	2,632	-	283,714
Transfer of net assets	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Changes in net assets	298,871	2,632	-	301,503
Net assets, beginning of year	<u>3,697,411</u>	<u>38,478</u>	<u>-</u>	<u>3,735,889</u>
Net assets, end of year	<u>\$ 3,996,282</u>	<u>\$ 41,110</u>	<u>\$ -</u>	<u>\$ 4,037,392</u>

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See accompanying report of independent auditors.

IOWA ANNUAL CONFERENCE OF THE UNITED  
METHODIST CHURCH AND AFFILIATE  
STATEMENTS OF CASH RECEIPTS AND DISBURSEMENTS – EPISCOPAL FUND – CASH BASIS OF ACCOUNTING  
Years ended December 31, 2013 and 2012

	2013			2012		
	<u>Episcopal Funds</u>	<u>Area Funds</u>	<u>Total</u>	<u>Episcopal Funds</u>	<u>Area Funds</u>	<u>Total</u>
Cash receipts:						
Episcopal Fund	\$ 78,600	\$ -	\$ 78,600	\$ 77,300	\$ -	\$ 77,300
Annual Conference apportionments	-	272,381	272,381	-	249,323	249,323
Other contribution income	-	83,199	83,199	-	12,060	12,060
Investment income	-	1,204	1,204	-	2,387	2,387
Total cash receipts	<u>78,600</u>	<u>356,784</u>	<u>435,384</u>	<u>77,300</u>	<u>263,770</u>	<u>341,070</u>
Cash disbursements:						
Support staff salaries	-	118,716	118,716	77,300	119,839	197,139
Support staff benefits	-	6,972	6,972	-	7,473	7,473
Support staff payroll taxes	-	63,421	63,421	-	64,569	64,569
Hotel, travel, meals and entertainment	-	27,244	27,244	-	37,004	37,004
Legal and professional fees	-	34,549	34,549	-	2,729	2,729
Equipment	-	-	-	-	1,749	1,749
Rent and utilities	-	2,400	2,400	-	2,400	2,400
Office supplies	-	11,065	11,065	-	27,643	27,643
Postage	-	1,508	1,508	-	3,242	3,242
Printing and copying	-	2,087	2,087	-	1,234	1,234
Grants	-	-	-	-	-	-
Miscellaneous	-	22,719	22,719	-	8,984	8,984
Total cash disbursements	<u>-</u>	<u>290,681</u>	<u>290,681</u>	<u>77,300</u>	<u>276,866</u>	<u>354,166</u>
Cash disbursements over cash receipts	78,600	66,103	144,703	-	(13,096)	(13,096)
Cash balance, beginning of year	-	(47,452)	(47,452)	-	(34,356)	(34,356)
Cash balance, end of year	<u>\$ 78,600</u>	<u>\$ 18,651</u>	<u>\$ 97,251</u>	<u>\$ -</u>	<u>\$ (47,452)</u>	<u>\$ (47,452)</u>

See accompanying report of independent auditors.