

McGladrey & Pullen

Certified Public Accountants

United Methodist Foundation, Inc.

Financial Report
12.31.2008

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McGladrey & Pullen

Certified Public Accountants

Independent Auditor's Report

To the Unitholders and the Board of Directors
of United Methodist Foundation, Inc.
Raleigh, North Carolina

We have audited the accompanying statements of net assets of United Methodist Foundation, Inc. as of December 31, 2008 and 2007, and the related statements of operations and changes in net assets for the years then ended. These financial statements are the responsibility of the Foundation's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of United Methodist Foundation, Inc. as of December 31, 2008 and 2007, and the results of its operations and changes in its net assets for the years then ended in conformity with accounting principles generally accepted in the United States of America.

McGladrey & Pullen, LLP

Raleigh, North Carolina
May 4, 2009

United Methodist Foundation, Inc.

Statements of Net Assets
December 31, 2008 and 2007

Assets	Identified Cost		2008	2007
	2008	2007		
Investments (unitholder funds) (Notes 2 and 5):				
Fixed income securities	\$ 35,703,173	\$ 34,527,939	\$ 37,185,305	\$ 35,362,376
Common stocks	55,249,474	55,643,941	41,225,976	61,800,468
Short-term investments	3,795,672	4,394,420	3,795,672	4,394,420
	<u>\$ 94,748,319</u>	<u>\$ 94,566,300</u>	<u>82,206,953</u>	<u>101,557,264</u>
Cash, unitholders			69,161	167,991
Cash, restricted (Note 3)			203	4,202
Cash, unrestricted			436,811	434,062
Temporary investments			1,963,532	1,999,179
Due from unitholders			97,501	41,292
Accrued interest and dividends receivable			436,273	422,270
Property held for resale			359,900	423,000
Investments, restricted (Note 3)			378,682	373,458
Cash surrender value, restricted (Note 3)			3,930	26,134
Total assets			<u>85,952,946</u>	<u>105,448,852</u>
Liabilities				
Amounts due to unitholders:				
Dividends payable			410,494	404,380
Funds awaiting unit issue			502,897	1,571,562
Deposits, interest bearing			1,963,532	1,999,179
Due to North Carolina Conference			499,892	254,372
Other			20,403	28,535
Total liabilities			<u>3,397,218</u>	<u>4,258,028</u>
Net assets			<u>\$ 82,555,728</u>	<u>\$ 101,190,824</u>
Analysis of net assets				
Represented by:				
Balanced Fund, units at cost, outstanding 27,290,441 units (25,823,053 in 2007) (Note 4)			\$ 71,413,798	\$ 65,364,052
Fixed Income Fund, units at cost, outstanding 3,559,708 units (3,490,864 in 2007) (Note 4)			3,537,745	3,467,851
Capital gains reserved			19,509,939	24,654,005
Unrealized appreciation (depreciation) of investments			(12,541,366)	6,990,964
			<u>81,920,116</u>	<u>100,476,872</u>
Unrestricted			436,811	434,062
Temporarily restricted (Note 3)			198,801	279,890
Total net assets			<u>\$ 82,555,728</u>	<u>\$ 101,190,824</u>

See Notes to Financial Statements.

United Methodist Foundation, Inc.

Statements of Operations
Years Ended December 31, 2008 and 2007

	2008	2007
Investment income:		
Income:		
Interest	\$ 1,648,756	\$ 1,673,152
Dividends	1,126,331	1,081,283
	<u>2,775,087</u>	<u>2,754,435</u>
Expenses:		
Investment fees	564,366	539,318
Administrative office	508,174	554,464
	<u>1,072,540</u>	<u>1,093,782</u>
Net investment income	<u>1,702,547</u>	<u>1,660,653</u>
Unrestricted income	<u>2,749</u>	<u>88,188</u>
Restricted income (loss):		
Income:		
Interest and dividends	9,955	18,558
Annuity receipts	7,883	7,883
Rental income	3,941	4,083
Realized and unrealized loss	(81,247)	(33,531)
	<u>(59,468)</u>	<u>(3,007)</u>
Expenses:		
Annuity distributions	21,283	21,283
Rental expenses	338	174
	<u>21,621</u>	<u>21,457</u>
Net restricted income (loss)	<u>(81,089)</u>	<u>(24,464)</u>
Realized and unrealized gain (loss) on investments:		
Realized gain (loss) from securities transactions (excluding short-term)		
Proceeds from sales	101,922,585	101,429,425
Cost of securities sold	106,123,909	95,104,676
Net realized gain (loss)	<u>(4,201,324)</u>	<u>6,324,749</u>
Change in unrealized appreciation (depreciation) of investments:		
Beginning	6,990,964	9,723,709
Ending	(12,541,366)	6,990,964
Change during year	<u>(19,532,330)</u>	<u>(2,732,745)</u>
Net realized gain (loss) and unrealized gain (loss) on investments	<u>(23,733,654)</u>	<u>3,592,004</u>
Net increase (decrease) in net assets resulting from operations	<u>\$ (22,109,447)</u>	<u>\$ 5,316,381</u>

See Notes to Financial Statements.

United Methodist Foundation, Inc.

Statements of Changes in Net Assets
Years Ended December 30, 2008 and 2007

	2008	2007
Increase (decrease) in net assets from operations:		
Net investment income	\$ 1,702,547	\$ 1,660,653
Net realized gain (loss) on investments	(4,201,324)	6,324,749
Change in unrealized appreciation (depreciation) of investments	(19,532,330)	(2,732,745)
Net gain (loss) from restricted assets	(81,089)	(24,464)
Net income from unrestricted assets	2,749	88,188
Increase (decrease) in net assets resulting from operations	(22,109,447)	5,316,381
Dividends paid to unitholders from net investment income	<u>(1,702,547)</u>	<u>(1,660,653)</u>
From unit transactions (exclusive of amounts allocated to investment income):		
Balanced Fund:		
Net asset value of 445,483 and 394,472 units issued to unitholders on reinvestment of dividends	1,562,240	1,465,197
Net asset value of 2,150,065 and 1,885,088 new units issued, respectively	7,500,935	7,020,971
Payment for redemption of 1,128,160 and 1,075,007 units, respectively	(3,956,171)	(3,998,767)
Fixed Income Fund:		
Net asset value of 68,844 and 98,378 units issued to unitholders on reinvestment of dividends	69,894	93,493
Payment for redemption of -0- and 650,648 units, respectively	-	(621,295)
Increase in net assets from unit transactions	5,176,898	3,959,599
Net increase (decrease) in net assets	(18,635,096)	7,615,327
Net assets, beginning	<u>101,190,824</u>	<u>93,575,497</u>
Net assets, ending	<u><u>\$ 82,555,728</u></u>	<u><u>\$ 101,190,824</u></u>

See Notes to Financial Statements.

Notes to Financial Statements

Note 1. Nature of Operations and Significant Accounting Policies

Nature of operations: United Methodist Foundation, Inc. (the "Foundation") was established in 1955 by the North Carolina Conference of The United Methodist Church to provide a management-investment pool for long-term and permanent funds of the North Carolina Conference and of local churches, institutions, and ministries of the Church. The Foundation was also established to encourage and receive planned gifts in support of local churches, institutions, and special ministries of The United Methodist Church and to assist donors in placing their gifts.

A summary of the Foundation's significant accounting policies follows:

Investments: Investments are stated at fair value. Fair value of actively traded fixed income and equity securities are based on quoted market prices. Fair value of inactively traded fixed income securities are based on quoted market prices of identical or similar securities or based on observable inputs like interest rates using either market or income valuation approach. Fair value of government money market funds are based on quoted market prices.

Estimates: The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the 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 revenues and expenses during the reporting period. Actual results could differ from those estimates.

General: Security transactions are accounted for on the trade date. Dividend income is recorded on the ex-dividend date and interest income is recognized on an accrual basis. Realized gains and losses from security transactions are reported on the first-in, first-out basis.

Unitholders can only redeem their units or acquire new units in the Balanced Fund or Fixed Income Fund on the first day of January, April, July and October. Amounts that have been sent to the Foundation in advance of these dates are reflected as a liability for funds awaiting unit issue in the statement of net assets.

Income taxes: The Foundation is exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code.

United Methodist Foundation, Inc.

Notes to Financial Statements

Note 2. Investments

The aggregate values of investments, along with net unrealized gains and losses at December 31, 2008 and 2007, are as follows:

	2008		
	Cost	Unrealized Appreciation (Depreciation)	Fair Value
Cash and money funds	\$ 3,030,205	\$ -	\$ 3,030,205
Other short-term investments	906,525	-	906,525
Common stocks	54,637,305	(13,801,127)	40,836,178
Government and government sponsored entities bonds	25,448,324	1,219,166	26,667,490
Corporate and international bonds	7,043,486	251,493	7,294,979
Mortgage and asset-backed securities	3,211,362	(63,855)	3,147,507
Exchanged traded and closed end funds	471,112	(147,043)	324,069
	<u>\$ 94,748,319</u>	<u>\$ (12,541,366)</u>	<u>\$ 82,206,953</u>
	2007		
	Cost	Unrealized Appreciation (Depreciation)	Fair Value
Cash and money funds	\$ 3,629,032	\$ -	\$ 3,629,032
Other short-term investments	884,833	-	884,833
Common stocks	54,778,618	6,104,813	60,883,431
Government and government sponsored entities bonds	28,367,035	887,794	29,254,829
Corporate and international bonds	4,414,826	(27,239)	4,387,587
Mortgage and asset-backed securities	1,746,076	(26,117)	1,719,959
Exchanged traded and closed end funds	745,880	51,713	797,593
	<u>\$ 94,566,300</u>	<u>\$ 6,990,964</u>	<u>\$ 101,557,264</u>

At December 31, 2008 the Foundation held approximately \$37,000,000 or 45% of their investment portfolio in fixed income securities, including approximately \$11,800,000 or 14% in Fannie Mae and Freddie Mac securities. Fannie Mae and Freddie Mac securities are included in the Mortgage and asset-backed securities and Government and government sponsored entities securities in the schedules above and are reported as Level 2 inputs in Note 5.

The Foundation 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 changes could materially affect the amounts reported in the statements of net assets.

United Methodist Foundation, Inc.

Notes to Financial Statements

Note 2. Investments (Continued)

During 2008 and subsequent to year-end, the continuation of the credit and liquidity crisis in the United States and throughout the global financial system has resulted in substantial volatility in financial markets and the banking system. These and other economic events have had a significant adverse impact on investment portfolios. As a result, the Foundation's investments have likely incurred a decline in value since December 31, 2008.

Purchases and sales of investment securities for the years ended December 31, 2008 and 2007 were as follows:

	<u>2008</u>	<u>2007</u>
Cost of purchases:		
Short-term investments	\$ 39,731,746	\$ 34,753,514
Other securities	106,904,676	106,453,396
	<u>\$ 146,636,422</u>	<u>\$ 141,206,910</u>
Proceeds from sale:		
Short-term investments	\$ 39,626,401	\$ 35,491,218
Other securities	101,922,585	101,429,425
	<u>\$ 141,548,986</u>	<u>\$ 136,920,643</u>

Note 3. Restricted Assets and Obligations

The Foundation has established separate funds for six charitable remainder trusts to record the investment of funds upon which certain donor restrictions have been placed. Since the assets and earnings on these investments are not available to all unitholders, they have been accounted for as restricted assets, restricted liabilities and restricted net assets.

Note 4. Unitholder Funds

The Foundation provides two investment alternatives for its unitholders. One alternative is the Balanced Fund, which utilizes an investment allocation strategy of 65% equities and 35% fixed income securities. The second alternative is the Fixed Income Fund, which utilizes an investment allocation strategy of 100% fixed income securities.

The net asset value per outstanding unit for the Balanced Fund was \$2.88 at December 31, 2008 and \$3.76 at December 31, 2007. The net asset value per outstanding unit for the Fixed Income Fund was \$0.96 at December 31, 2008 and \$1.00 at December 31, 2007.

Notes to Financial Statements

Note 5. Fair Value Measurements

On January 1, 2008, the Foundation adopted FAS 157 and there was no material impact to the Foundation's financial statements. FAS 157 applies to all assets and liabilities that are being measured and reported on a fair value basis. However, as described in Note 7, the Financial Accounting Standards Board ("FASB") issued FSP No. 157-2 which permitted delayed application of FAS 157 of all nonfinancial assets and liabilities until the Foundation's 2009 reporting period. FAS 157 requires new disclosure that establishes a framework for measuring fair value in generally accepted accounting principles, and expands disclosure about fair value measurements. This statement enables the reader of the financial statements to assess the inputs used to develop those measurements by establishing a hierarchy for ranking the quality and reliability of the information used to determine fair values. The statement requires that assets and liabilities carried at fair value will be classified and disclosed in one of the following three categories:

Level 1: Quoted market prices in active markets for identical assets or liabilities.

Level 2: Observable market based inputs or unobservable inputs that are corroborated by market data.

Level 3: Unobservable inputs that are not corroborated by market data.

In determining the appropriate levels, the Foundation performs a detailed analysis of the assets and liabilities that are subject to FAS 157. At each reporting period, all assets and liabilities for which the fair value measurement is based on significant unobservable inputs are classified as Level 3.

The table below presents the balances of assets and liabilities measured at fair value on a recurring basis by level within the hierarchy.

	December 31, 2008			
	Total	Level 1	Level 2	Level 3
Financial assets:				
Investments	\$ 82,206,953	\$ 44,772,908	\$ 37,434,045	\$ -
Temporary investments (money market funds)	1,963,532	1,963,532	-	-
market funds)	378,682	378,682	-	-
	<u>\$ 84,549,167</u>	<u>\$ 47,115,122</u>	<u>\$ 37,434,045</u>	<u>\$ -</u>

Fair value of actively traded fixed income and equity securities are based on quoted market prices. Fair value of inactively traded fixed income securities are based on quoted market prices of identical or similar securities or based on observable inputs like interest rates using either a market or income valuation approach and are generally classified as Level 2.

Note 6. Credit Risk

The Foundation places its cash with a high quality financial institution. At times, such cash is in excess of the federal depository insurance limit.

Notes to Financial Statements

Note 7. Recent Accounting Pronouncement

In September 2006 the FASB issued SFAS No. 157, *Fair Value Measurements* ("SFAS 157"). SFAS 157 defines fair value, establishes a framework for measuring fair value, and expands disclosures about fair value measurement. SFAS 157 also emphasizes that fair value is a market-based measurement, not an entity-specific measurement, and sets out a fair value hierarchy with the highest priority being quoted prices in active markets. Under SFAS 157, fair value measurements are disclosed by level within that hierarchy. In February 2008, the FASB issued FASB Staff Position No. 157-2, *Effective Date of FASB Statement 157*, ("FSP 157-2") which permits a one-year deferral for the implementation of SFAS 157 with regard to nonfinancial assets and liabilities that are not recognized or disclosed at fair value in the financial statements on a recurring basis. The Foundation adopted SFAS 157 for the fiscal year beginning January 1, 2008, except for nonfinancial assets and nonfinancial liabilities that are recognized or disclosed at fair value in the financial statements on a nonrecurring basis for which delayed application is permitted until the fiscal year beginning January 1, 2009. The Foundation is currently assessing the potential effect of the adoption of the remaining provisions of SFAS 157 on its financial position, results of operations and cash flows.