

**SOUTH CAROLINA CONFERENCE OF THE
UNITED METHODIST CHURCH**

REPORT ON COMBINED FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2011

SOUTH CAROLINA CONFERENCE OF THE UNITED METHODIST CHURCH

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INDEPENDENT AUDITOR'S REPORT

South Carolina Conference of The
United Methodist Church
Columbia, South Carolina

We have audited the accompanying statement of combined financial position of the South Carolina Conference of The United Methodist Church (the Conference) as of December 31, 2011, and the related combined statements of activities and cash flows for the year then ended. These combined financial statements are the responsibility of the Conference. Our responsibility is to express an opinion on these combined financial statements based on our audit.

We conducted our audit 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 audit provides a reasonable basis for our opinion.

As described in Note 1, the statements do not include all the Conference's costs for property and equipment as required by accounting principles generally accepted in the United States of America. Expenditures for certain such purchases are charged as expenditures in the year of purchase. Accordingly, the accompanying combined financial statements are generally not intended to present financial position and results of operations in conformity with accounting principles generally accepted in the United States of America. Management has not determined the effect of this departure on the Conference's combined financial position or results of operations.

In our opinion, except for not capitalizing certain property and equipment and recording depreciation, the combined financial statements referred to above present fairly, in all material respects, the financial position of the South Carolina Conference of The United Methodist Church as of December 31, 2011, and the results of its operations and its cash flows for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

Our audit was made for the purpose of forming an opinion on the combined financial statements taken as a whole. The information provided in the supplemental schedule is presented for purposes of additional analysis and is not a required part of the combined 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 combined financial statements. The information has been subjected to the auditing procedures applied in the audit of the combined financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the combined financial statements or to the combined 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 combined financial statements as a whole.

Elliott Davis LLC

Columbia, South Carolina
July 31, 2012

SOUTH CAROLINA CONFERENCE OF THE UNITED METHODIST CHURCH
COMBINED STATEMENT OF FINANCIAL POSITION
DECEMBER 31, 2011

ASSETS

CURRENT ASSETS

Cash and cash equivalents	\$	5,607,323
Prepaid insurance		24,443
Receivables		
Due from churches		1,841,922
Due from pension/insurance billings, net of allowance for doubtful accounts of \$1,324,879		737,473
Investments		24,485,390
Total current assets		32,696,551

PROPERTY AND EQUIPMENT, net

		7,146,267
Total assets	\$	<u><u>39,842,818</u></u>

LIABILITIES AND NET ASSETS

CURRENT LIABILITIES

Accounts payable	\$	1,269,904
Current portion of notes payable		52,068
Due to agencies and support groups		4,765
Deferred revenue		16,199
Accrued postretirement benefit obligations		1,636,084
Other accrued expenses		5,737
Total current liabilities		2,984,757

ACCRUED POSTRETIREMENT BENEFIT OBLIGATIONS

22,055,167

NOTES PAYABLE

972,368

Total liabilities		<u>26,012,292</u>
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NET ASSETS

Unrestricted		
Undesignated		9,768,277
Board designated		2,114,687
Temporarily restricted		1,909,458
Permanently restricted		38,104
Total net assets		13,830,526
Total liabilities and net assets	\$	<u><u>39,842,818</u></u>

The accompanying notes are an integral part of this combined financial statement.

SOUTH CAROLINA CONFERENCE OF THE UNITED METHODIST CHURCH
COMBINED STATEMENT OF ACTIVITIES
For the year ended December 31, 2011

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
REVENUE AND SUPPORT				
Apportionments	\$ 11,605,625	\$ 3,634,831	\$ -	\$ 15,240,456
Direct billing: health insurance	6,910,326	-	-	6,910,326
Direct billing: pension and protection plans	5,827,258	-	-	5,827,258
Registrations and fees	1,945,175	-	-	1,945,175
Investment income	89,180	13,325	-	102,505
Nonapportioned giving	163,535	609,437	-	772,972
Other income	225,118	10,319	-	235,437
Net realized and unrealized losses on investments	(155,889)	(3,069)	-	(158,958)
Net assets released from restrictions	<u>4,260,602</u>	<u>(4,260,602)</u>	-	<u>-</u>
Total revenue and support	30,870,930	4,241	-	30,875,171
EXPENSES				
Conference benevolences	3,126,426	-	-	3,126,426
Benefits and welfare	15,702,211	-	-	15,702,211
Postretirement health plan credit	(12,327,619)	-	-	(12,327,619)
Support of conference institutions	2,597,515	-	-	2,597,515
District operations	2,008,939	-	-	2,008,939
Clergy support and church development	1,738,275	-	-	1,738,275
Camps: Asbury Hill and Salkehatchie	1,812,154	-	-	1,812,154
General and jurisdictional conference support	3,507,349	-	-	3,507,349
Management and general	1,035,655	-	-	1,035,655
Other expenses	<u>6,347</u>	<u>-</u>	<u>-</u>	<u>6,347</u>
Total expenses	<u>19,207,252</u>	<u>-</u>	<u>-</u>	<u>19,207,252</u>
Increase in net assets from operating activities	11,663,678	4,241	-	11,667,919
NONOPERATING				
Postretirement-related changes other than net periodic postretirement cost	<u>(12,557,773)</u>	<u>-</u>	<u>-</u>	<u>(12,557,773)</u>
Change in net assets	(894,095)	4,241	-	(889,854)
NET ASSETS, BEGINNING OF YEAR, as restated	<u>12,777,059</u>	<u>1,905,217</u>	<u>38,104</u>	<u>14,720,380</u>
NET ASSETS, END OF YEAR	<u>\$ 11,882,964</u>	<u>\$ 1,909,458</u>	<u>\$ 38,104</u>	<u>\$ 13,830,526</u>

The accompanying notes are an integral part of this combined financial statement.

SOUTH CAROLINA CONFERENCE OF THE UNITED METHODIST CHURCH
COMBINED STATEMENT OF CASH FLOWS
For the year ended December 31, 2011

CASH FLOWS FROM OPERATING ACTIVITIES:

Change in net assets	\$ (889,854)
Adjustments to reconcile change in net assets to net cash used for operating activities:	
Depreciation	126,139
Unrealized and realized losses on investments	158,958
Changes in deferred and accrued amounts:	
Prepaid insurance	(24,443)
Due from churches	515,193
Due from pension/insurance billings	17,509
Due from United Methodist Relief Center	274,088
Accounts payable	(466,615)
Due to agencies and support groups	4,517
Deferred revenue	8,730
Accrued postretirement benefit obligations	230,154
Other accrued expenses	5,737
Net cash used for operating activities	<u>(39,887)</u>

CASH FLOWS FROM INVESTING ACTIVITIES:

Proceeds from sale of investments	16,508,928
Purchases of investments	(18,065,769)
Purchases of property and equipment	<u>(1,104,647)</u>
Net cash used for investing activities	<u>(2,661,488)</u>

CASH FLOWS FROM FINANCING ACTIVITIES:

Proceeds from notes payable	1,020,000
Principal payments on notes payable	<u>(28,271)</u>
Net cash provided by financing activities	<u>991,729</u>
Net change in cash and cash equivalents	(1,709,646)

CASH AND CASH EQUIVALENTS:

BEGINNING OF YEAR	<u>7,316,969</u>
END OF YEAR	<u><u>\$ 5,607,323</u></u>

SUPPLEMENTAL DISCLOSURES

Cash paid for interest	<u><u>\$ 12,397</u></u>
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The accompanying notes are an integral part of this combined financial statement.

SOUTH CAROLINA CONFERENCE OF THE UNITED METHODIST CHURCH
NOTES TO COMBINED FINANCIAL STATEMENTS

The South Carolina Conference of The United Methodist Church governs the various boards, commissions, committees and agencies whose purpose is to carry out the programs of the United Methodist Church. The South Carolina Conference of The United Methodist Church is a nonprofit religious organization and is exempt from paying income taxes under Section 501 (c)(3) of the Internal Revenue Code.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of accounting

The accompanying combined financial statements have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America, except for the effects of not recording property and equipment as described in Note 5. Financial statement presentation follows the recommendations of the Financial Accounting Standards Board Accounting Standards Codification (ASC). Under the ASC, the Conference is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets.

Basis of presentation and principles of combination

The accompanying combined financial statements include the accounts of the South Carolina Conference of The United Methodist Church, the 12 South Carolina Conference Districts and South Carolina Conference's Camps and Retreat. The Districts and the Camps and Retreat are combined due to common control by the Conference. All significant inter-entity balances and transactions have been eliminated in the combined financial statements.

Cash and cash equivalents

For purposes of reporting the statement of cash flows, the Conference considers all highly liquid debt instruments purchased with maturity of three months or less to be cash equivalents.

Accounts receivable

Accounts receivable are reported net of an allowance for doubtful accounts. The allowance is based on management's estimate of the amount of receivables that will ultimately be collected.

Investments

The Conference's investments are stated at fair market value in accordance with the ASC. Under the ASC, investments in marketable securities with readily determinable fair values and all investments in debt securities are valued at their fair values in the statement of financial position. Unrealized gains and losses are included in the change in net assets in investment returns.

Property and equipment

The Conference has generally not recorded land or buildings as fixed assets on its balance sheet, with the exception of the fixed assets of the Camps and Retreat. In 2003, the Conference recorded the renovations to the conference center, based on its intention to start recording fixed assets along with the related depreciation. Property was to be recorded at cost with depreciation being provided on the straight-line method over the estimated useful lives of 10 to 39 years for buildings and 10 to 39 years for improvements to land and building. The plan has been delayed while the Conference re-evaluates starting the policy of recording all current land and property versus continuing the previous policy. Therefore, the Conference did not record depreciation for the conference renovation. The Conference does maintain investments in an equipment fund. However, the Conference does not record the related depreciation of such equipment as required by accounting principles generally accepted in the United States of America. Expenditures for such investments in the equipment fund are generally charged as expenditures in the year of purchase.

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NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

Support and expenses

A contribution is deemed to have been received when the cash or other assets including securities, land, buildings, use of facilities, materials and supplies, intangible assets, services or unconditional promise to give such items in the future is received. An unconditional promise to give is a promise, which is not dependent on the occurrence of a specified future and uncertain event to bind the promisor.

Contributions received and unconditional promises to give are measured at their fair values and are reported as increase in net assets. The Conference reports gifts of cash and other assets as restricted support if they are received with donor stipulations that limit the use of the donated assets, or if they are designated as support for future periods. When a donor 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.

The combined financial statements present expenses in accordance with the overall service mission of the Conference displayed within their natural classifications.

Uncertainty in income taxes

The Conference is a nonprofit religious organization and is exempt from paying income taxes under Section 501 (c)(3) of the Internal Revenue Code. Management evaluated the Conference's tax positions and is unaware of any situation or circumstance that would cause the Conference to lose its tax exempt status and has taken no uncertain tax positions that require adjustment to the combined financial statements. Therefore, no provision or liability for income taxes has been included in the combined financial statements.

Compensated absences

Accumulated unpaid vacation pay is accrued when it is earned. Conference employees are entitled to carry over from one calendar year to the next up to one week's vacation time. If an employee leaves the employment of the Conference, the employee is entitled to be paid for the unused vacation time. No liability for sick pay is recorded since the rights to receive such pay are contingent on future services.

Advertising

Costs incurred for producing and communicating advertising and promotional material are expensed when incurred.

Fair value measurements

The Conference has adopted the prescribed accounting standards for fair value measurement for its financial assets and liabilities. The standards clarify that fair value is an exit price, representing the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The Conference utilizes market data or assumptions that market participants would use in pricing the asset or liability. The standard established a three-tier fair value hierarchy, which prioritizes the inputs used in measuring fair value. These tiers include: Level 1, defined as observable inputs such as quoted prices in active markets; Level 2, defined as inputs other than quoted prices in active markets that are either directly or indirectly observable; and Level 3, defined as unobservable inputs about which little or no market data exists, therefore requiring an entity to develop its own assumptions.

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NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

Use of estimates

The preparation of combined 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 combined financial statements and the reported amounts of results of operations during the period. Actual results could differ from these estimates.

Subsequent events

These combined financial statements have not been updated for subsequent events after July 31, 2012, the date the combined financial statements were available to be issued.

NOTE 2 - CONCENTRATIONS OF CREDIT RISK

The Conference maintains its cash balances and investments with several financial institutions and brokerage companies. At times, deposits with the financial institutions may exceed Federal Deposit Insurance Corporation (FDIC) insurance limits. In addition, the Conference has \$1,050,000 invested with the United Methodist Development Fund, which is not FDIC insured.

NOTE 3 - FAIR VALUE MEASUREMENTS

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. In determining fair value, the Conference uses various methods including market, income and cost approaches. Based on these approaches, the Conference often utilizes certain assumptions that market participants would use in pricing the asset or liability, including assumptions about risk and/or the risks inherent in the inputs to the valuation technique. These inputs can be readily observable, market corroborated, or generally unobservable inputs.

The Conference utilizes valuation techniques that maximize the use of observable inputs and minimize the use of unobservable inputs. Based on the observables of the inputs used in the valuation techniques, the Conference is required to provide the following Information according to the fair value hierarchy. The fair value hierarchy ranks the quality and reliability of the information used to determine fair values. Financial assets and liabilities carried at fair value will be classified and disclosed in one of the following three categories:

- Level 1 Valuations for assets and liabilities traded in active exchange markets, such as the New York Stock Exchange. Level 1 also includes U.S. Treasury and federal agency securities and federal agency mortgage-backed securities, which are traded by dealers or brokers in active markets. Valuations are obtained from readily available pricing sources for market transactions involving identical assets or liabilities.
- Level 2 Valuations for assets and liabilities traded in less active dealer or broker markets. Valuations are obtained from third-party pricing services for identical or similar assets or liabilities.
- Level 3 Valuations for assets and liabilities that are derived from other valuation methodologies, including option-pricing models, discounted cash flow models and similar techniques, and not based on market exchange, dealer, or broker-traded transactions. Level 3 valuations incorporate certain assumptions and projections in determining the fair value assigned to such assets or liabilities.

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NOTE 3 - FAIR VALUE MEASUREMENTS, Continued

Management uses the following methods and assumptions to estimate the fair value of the Conference's financial instrument.

Cash, cash equivalents', and receivables' carrying amounts approximate fair value because of the short maturity of those instruments. Debt instruments carrying value also approximate fair value based on the prices for the same or similar debt Issues and on current rates offered to the Conference for debt of the same remaining maturities with similar collateral requirements.

In determining the fair value of investments the Conference uses various valuation approaches within the ASC 820 fair value measurement framework. The following is a description of the valuation methodologies used:

Certificates of deposit: The carrying amounts of such instruments approximate fair value and are classified within Level 2 of the valuation hierarchy.

Fund of Funds, United Methodist Foundation: Represent units pooled within the South Carolina United Methodist Foundation (UMF) and are valued using the Net Asset Value (NAV) provided by the administrator of the funds. The NAV is based on the value of the underlying assets owned by the funds, minus its liabilities and then divided by the number of shares or units outstanding. These funds are fund of funds and the investments are classified within Level 2 of the valuation hierarchy. The Conference's investments with the UMF accounts consisted of cash and money market funds, preferred stock, fixed income securities and short-term investments.

Fund of Funds, General Board of Pensions: Represent units pooled within the General Board of Pension (GBOP) Superannuate Endowment, GBOP HMEP, GBOP Deposit, GBOP Retiree Health Care and GBOP Permanent Fund and are valued using the Net Asset Value (NAV) provided by the administrator of the funds. The NAV is based on the value of the underlying assets owned by the funds, minus its liabilities and then divided by the number of shares or units outstanding. These Funds are fund of funds and the investments are classified within Level 2 of the valuation hierarchy. The Conference's investment with the GBOP accounts consisted of common stock, fixed income securities and short term investments.

Mutual Funds: These investments are valued using the NAV provided by the administrator of the fund. The NAV is based on the value of the underlying assets owned by the fund, minus its liabilities and then divided by the number of shares or units outstanding. These investments are classified within Level 1 of the valuation hierarchy. The Conference can make withdrawals from this investment by contacting the administrator.

The Conference had the following levels of investments as defined in the framework measured on a recurring basis:

<u>Description</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Financial assets				
Certificates of deposit	\$ -	\$ 4,130,186	\$ -	\$ 4,130,186
UMF Fund of Funds	-	460,217	-	460,217
GBOP Fund of Funds:				
Multiple Asset Fund	-	8,845,075	-	8,845,075
Short Term Invest Fund	-	10,653,711	-	10,653,711
Mutual funds:	-	-	-	-
Intermediate Govt	<u>396,201</u>	<u>-</u>	<u>-</u>	<u>396,201</u>
Total financial assets	<u>\$ 396,201</u>	<u>\$ 24,089,189</u>	<u>\$ -</u>	<u>\$ 24,485,390</u>

(Continued)

NOTE 4 - INVESTMENTS IN SECURITIES

Investments purchased are recorded at cost. Securities or other investments donated are recorded at their fair value at the date of the gift. Investments are carried at fair value with gains or losses being recognized and reported in the statement of activities in the appropriate classes as prescribed by the ASC.

NOTE 5 - PROPERTY, EQUIPMENT AND DEPRECIATION

The Conference historically has not recorded property and equipment as fixed assets on its balance sheet, with the exception of Camps and Retreat. In 2003, the conference recorded the renovations to the conference center, based on its intention to start recording fixed assets along with the related depreciation. During 2011, the Conference also recorded certain related property and equipment that was subject to debt for the Districts to its accounting records. Currently the Conference is evaluating its policy of recording all land and property. It has also deferred recording depreciation expense with the exception of depreciation related to the property of Camps and Retreat. Below is a summary of the property and equipment at December 31, 2011:

	<u>Conference</u>	<u>Districts</u>	<u>Camps and Retreat</u>	<u>Total</u>
Construction in progress	\$ -	\$ -	\$ 32,025	\$ 32,025
Land	300,000	-	645,000	945,000
Buildings and equipment	<u>2,174,505</u>	<u>185,000</u>	<u>4,945,740</u>	<u>7,305,245</u>
	2,474,505	185,000	5,622,765	8,282,270
Less accumulated depreciation	<u>-</u>	<u>-</u>	<u>1,136,003</u>	<u>1,136,003</u>
	<u>\$ 2,474,505</u>	<u>\$ 185,000</u>	<u>\$ 4,486,762</u>	<u>\$ 7,146,267</u>

Depreciation expense in the amount of \$126,139 was included in total expenses for the year ended December 31, 2011.

NOTE 6 - DEFERRED REVENUE

Deferred Revenue consists of church contributions made to support the following year's activities. The deferred revenues for December 31, 2011 were \$16,199.

NOTE 7 - NOTES PAYABLE

Notes payable consist of the following at December 31, 2011:

A note in the amount of \$890,000 payable to the United Methodist Development Fund in 180 monthly payments of \$7,748, including interest at 6.49%, due September 2026, collateralized by the real property at 415 Sam Point Road, Beaufort, South Carolina.

\$ 876,889

A note in the amount of \$130,000 payable to the United Methodist Development Fund in 120 monthly payments of \$1,476, including interest at 6.49%, due February 2021, collateralized by real property at 205 Boxwood Lane, Greenville, South Carolina .

118,955

(Continued)

NOTE 7 - NOTES PAYABLE, Continued

A note in the amount of \$41,702 payable to a bank in 59 monthly payments of \$476, including interest at 6.50% and one balloon payment of the remaining balance due March 2013, collateralized by real property at 119 North Lucas Street, Walterboro, South Carolina.

	<u>28,592</u>
	1,024,436
Less current maturities	<u>52,068</u>
	<u>\$ 972,368</u>

Scheduled maturities of the long-term portion of the notes payable are as follows:

2012	\$ 52,068
2013	75,107
2014	53,827
2015	57,426
2016	61,266
Thereafter	<u>724,742</u>
	<u>\$ 1,024,436</u>

NOTE 8 - FIDELITY BOND

The General Council on Finance and Administration provides \$ 1,000,000 fidelity bond protection for all Annual Conference Treasurers and their staff at no charge. Fidelity bonding for trustees and related staff is provided by the Annual Conference.

NOTE 9 - NET ASSETS

Unrestricted Board designated net assets are net assets that have been designated for a specific purpose by the Board. Unrestricted Board designated net assets at December 31, 2011 are designated for the following purposes:

Permanent reserve	\$ 820,072
Annual Conference	704,027
Ministry development	<u>590,588</u>
	<u>\$ 2,114,687</u>

Temporarily restricted net assets at December 31, 2011 are available for specific program services as follows:

District ministries	\$ 732,860
Ashbury Hills	326,294
Ministerial education	217,251
Other programs	<u>633,053</u>
	<u>\$ 1,909,458</u>

Permanently restricted net assets of \$38,104 at December 31, 2011 are restricted in perpetuity. Earnings from permanently restricted net assets are restricted for scholarships.

NOTE 10 - LEASES

The Conference has entered into various operating leases for office equipment. These leases expire at various dates through August 2013. Total lease expense was \$43,856 for the year end December 31, 2011.

Future minimum lease commitments under the operating leases at December 31, 2011 are as follows:

2012	\$	29,989
2013		<u>17,358</u>
	\$	<u>47,347</u>

NOTE 11 - CLERGY RETIREMENT SECURITY PROGRAM (CRSP), MINISTERIAL PENSION PLAN AND COMPREHENSIVE PROTECTION PLAN (MPP/CPP) AND CUMULATIVE PENSION AND BENEFIT FUND (CPBF)

The South Carolina Conference of The United Methodist Church participates in a defined benefit multi-employer pension plan administered by the General Board of Pensions of the United Methodist Church. The plan provides pension benefits to retiring members in addition to providing disability income benefits and guaranteed minimum benefits for widows and dependent children of deceased members.

The Conference contributes to the fund an amount equivalent to 3% of each minister's annual plan compensation (cash salary, tax-deferred contributions made and housing allowance or value of the use of a parsonage) limited by 200% of the denominational average compensation. In addition, the Conference contributed, in 2011, \$578 per month per full time equivalent towards the defined benefit portion of the plan for clergy. For lay employees, the Conference contributes 9% and the lay employee contributes a minimum of 3%. CPP contributions for eligible full time ministers are the equivalent of 3% of the minister's plan compensation limited by 200% of the current denomination average compensation. Past service defined benefit funding is an annual actuarially determined amount approved by the Annual Conference. Contributions for each participant are fully vested. The Conference Treasurer remitted \$5,470,971 in 2011 to the General Board of Pensions.

Past service expenses are charged to the Annual Conference. The RP 2000 Individual Annuity Mortality Table is used in the determination of these amounts.

Ministers' pension payments received by the Conference Treasurer are remitted to the General Board of Pensions of the United Methodist Church.

The Conference participates in the Ministers Reserve Pension Fund which is a multi-employer defined benefit pension plan administered by the General Board of Pensions and Health Benefits of the United Methodist Church. The fund covers service prior to 1982 for substantially all clergy and lay pastors. The Board of Pensions of the Conference acts as trustee responsible for deposits with the General Board of Pensions and Health Benefits of the United Methodist Church. The Conference did not make any contributions to the Ministries Reserve Pension Fund in 2011. For service subsequent to 1981, ministerial and lay employees of the Conference are eligible to participate in the multiemployer retirement plans offered by the United Methodist Church as described below.

The Ministerial Pension Plan (MPP) provided benefits for United States of America clergy from January 1, 1982, through December 31, 2006. It is primarily a defined contribution retirement plan, with the requirement that clergy must convert at least 65% of his or her total account balance to an annuity. This plan ceased accruing benefits effective December 31, 2006. The total contributions to the plan for the year ended December 31, 2011 were \$982,987. These amounts are included in program disbursements in the combined financial statements.

(Continued)

NOTE 11 - CLERGY RETIREMENT SECURITY PROGRAM (CRSP), MINISTERIAL PENSION PLAN AND COMPREHENSIVE PROTECTION PLAN (MPP/CPP) AND CUMULATIVE PENSION AND BENEFIT FUND (CPBF), Continued

The Comprehensive Protection Plan (CPP) provided disability and death benefits as well as certain minimum benefits related to pension coverage for certain ministerial employees. The CPP is a multiemployer defined benefit pension plan administered by the General Board of Pensions and Health Benefits of the United Methodist Church. The Conference did not make any contributions to the plan for the year ended December 31, 2011.

The United Methodist Personal Investment Plan became effective January 1, 2006. The General Board of Pension and Health Benefits of the United Methodist Church merged the Cumulative Pension and Benefit Fund and the Personal Investment Plan to form the United Methodist Personal Investment Plan (UMPIP). Conference lay employees and conference and local church personnel are eligible to participate in a defined contribution plan administered by the General Board of Pensions and Health Benefits of the United Methodist Church, which currently requires an employer contribution between 1% and 12%. The Conference currently contributes 9% of all eligible lay participants' compensation. Total contributions to the plan for the year ended December 31, 2011 were \$110,527. These amounts are included in program disbursements in the combined financial statements.

The Clergy Retirement Security Program (CRSP) was effective January 1, 2007, as a defined benefit plan and a defined contribution plan administered by the General Board of Pensions and Health Benefits of the United Methodist Church. Clergy members and local pastors under Episcopal appointment to a conference, church, charge, district or conference-controlled entity or unit are eligible to participate. For the defined benefit plan, the December 31, 2011 contribution was based on an amount equal to \$578 per month for each full-time equivalent.

Total contributions to the plan for the year ended December 31, 2011 were as follows:

Defined benefit plan	\$	4,143,169
Defined contribution plan	\$	1,217,275

NOTE 12 - POST RETIREMENT BENEFIT PLAN

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

On December 31, 2007, the Conference adopted the recognition and disclosure provisions of FASB Accounting Standards Codification (ASU) 958 (Not-For-Profit Entities Compensation-Retirement Benefits). ASU 958 requires the Conference to recognize the funded status of its defined benefit plans in its Statement of Financial Position, with a corresponding adjustment to unrestricted net assets. The adjustment to unrestricted net assets at adoption represented the unrecognized prior service benefit and unrecognized net gain, all of which were previously netted against the funded status of the plan in the Conference's statement of financial position pursuant to ASU 958. These amounts will subsequently be recognized as net gains consistent with the Conference's historical accounting policy for amortizing such amounts. In addition, actuarial gains and losses that arise in subsequent periods and not recognized in benefit cost will be recognized in unrestricted net assets.

(Continued)

NOTE 12 - POST RETIREMENT BENEFIT PLAN, Continued

The following table provides a reconciliation of the changes in the plan's benefit obligation and fair value of assets for the year ended December 31, 2011, and a statement of funded status at December 31, 2011:

Reconciliation of accumulated postretirement benefit obligation:	
Accumulated postretirement benefit obligation, beginning	\$ 23,461,097
Service cost for benefits earned during the year	180,258
Interest cost on accumulated postretirement benefit obligation	1,243,079
Plan amendments	(923,841)
Actuarial losses	1,449,991
Contributions by plan participants	918,000
Benefit payments	<u>(2,637,333)</u>
Accumulated postretirement benefit obligations, ending	<u>23,691,251</u>
Reconciliation of fair value of plan assets:	
Fair value of plan assets, beginning	-
Employer contributions	(1,719,333)
Contributions by plan participant	(918,000)
Benefit payments	<u>2,637,333</u>
Fair value of plan assets	<u>-</u>
Funded status:	
Accumulated postretirement benefit obligation in excess of plan assets	<u>\$ (23,691,251)</u>

At the June 2010 meeting of the South Carolina Annual Conference 3 proposals were presented to the voting members of the Conference. The plan adopted at that meeting addressed the unfunded liability by a reduction in the retiree subsidy phased in from 2014 - 2022, an eligibility change for futures retirees retiring on or after July 1, 2015, and an increase in apportionments to fully fund the liability.

The details are as follows:

- A. The subsidy will be reduced as follows:
 - a. Effective 1/1/2014 lower maximum subsidy to 65%
 - b. Effective 1/1/2016 lower maximum subsidy to 60%
 - c. Effective 1 /1 /2018 lower maximum subsidy to 55%
 - d. Effective 1 /1 /2020 lower maximum subsidy to 50%
 - e. Effective 1/1/2022 maximum subsidy would be \$ 5,000 per retiree including spouse.
- B. The Eligibility would be changed for retirees effective July 1, 2015. Current retirees and retirees retiring prior to July 1, 2015 would not be changed, but those active who are age 65 by the effective date of this change and who retire on or after the effective date of this change would not be eligible for the Medicare Supplemental or other health care coverage under the Conference plan.
- C. The Funding will be accomplished via the use of the Comprehensive Health Plan Holiday for 2011 and 2012 to fund this gap and an apportionment remaining at the 2010 level for the years 2011 through 2015. In 2016 the apportionment would be increased to fully fund the gap by the year 2032. No additional funding would be required after 2032.

(Continued)

NOTE 12 - POST RETIREMENT BENEFIT PLAN, Continued

The components of the pension cost charged to expense consisted of the following:

Service cost for benefits earned during the year	\$ 180,258
Interest cost on projected benefit obligation	1,243,079
Amortization of net loss	64,893
Amortization of prior service benefit	<u>(12,096,516)</u>
Net periodic pension income	<u>\$ (10,608,286)</u>
Amounts recognized in postretirement changes other than net periodic postretirement costs	
Actuarial loss for current year	\$ 1,449,991
Amortization of actuarial loss	(923,841)
Amortization of net loss	(64,893)
Amortization of prior service benefit	<u>12,096,516</u>
	<u>\$ 12,557,773</u>
Amount in unrestricted net assets expected to be recognized in net postretirement cost in 2012	
Prior service benefit	\$ (11,934,139)
Net gain	<u>329,357</u>
	<u>\$ (11,604,782)</u>

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

	<u>Retiree contributions</u>	<u>Conference</u>	<u>Total</u>
2012	\$ 1,093,862	\$ 1,636,084	\$ 2,729,946
2013	1,291,402	1,830,690	3,122,092
2014	1,640,097	1,917,422	3,557,519
2015	1,864,322	2,117,089	3,981,411
2016	2,065,021	1,975,403	4,040,424
2017 - 2021	11,754,899	8,491,303	20,246,202

The accumulated postretirement benefit obligation was computed using an assumed discount rate of 3.75 % for 2011. The health care cost trend rate was assumed to be 8.5% in 2011.

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

	<u>1% Increase</u>	<u>1% Decrease</u>
Effect on total service and interest cost components	\$ 56,028	\$ (56,030)
Effect on the accumulated postretirement benefit obligation	890,327	(978,002)

NOTE 13 - RESTATEMENT OF BEGINNING NET ASSETS

The Conference's net assets at December 31, 2010, have been restated to reflect an increase of \$6,958,007 due to the following changes:

The Conference has historically only included in its financial statements cash accounts of the Districts and Camps and Retreat that were maintained by the Conference. Generally accepted accounting principles require that all activity of these entities be consolidated with that of the Conference. At December 31, 2010, the Conference had not consolidated all assets, liabilities and net assets of these entities and as a result net assets at December 31, 2010 was understated by \$5,698,007. The beginning net assets included herein, which excludes certain property and equipment as described in Note 5, as of January 1, 2011, have been restated to reflect this change.

At December 31, 2010, the Conference recorded a transfer of funds from a cash account to an investment account that occurred subsequent to year end as a liability in accounts payable in error. As a result, net assets at December 31, 2010, was understated by \$1,260,000. The beginning net assets included herein as of January 1, 2011, have been restated to reflect this change.

During 2011, the Conference evaluated its classifications of net assets and determined \$854,946 of net assets previously classified as unrestricted at December 31, 2010 should have been classified as restricted. The beginning net assets included herein as of January 1, 2011, have been restated to reflect this change.

The net result of these changes to net assets at December 31, 2010 is summarized as follows:

	<u>Unrestricted</u>	<u>Temporarily restricted</u>	<u>Permanently restricted</u>	<u>Total</u>
Adjustment for consolidation of Districts and Camps and retreat	\$ 4,803,232	\$ 894,775	\$ -	\$ 5,698,007
Adjustment for liability recorded in error	1,260,000	-	-	1,260,000
Adjustment for net assets reclassification	<u>(854,946)</u>	<u>816,842</u>	<u>38,104</u>	<u>-</u>
Net increase in net assets at December 31, 2010	5,208,286	1,711,617	38,104	6,958,007
Net assets as previously stated at December 31, 2010	<u>7,568,773</u>	<u>193,600</u>	<u>-</u>	<u>7,762,373</u>
Net assets as restated at December 31, 2010	<u>\$ 12,777,059</u>	<u>\$ 1,905,217</u>	<u>\$ 38,104</u>	<u>\$ 14,720,380</u>

SOUTH CAROLINA CONFERENCE OF THE UNITED METHODIST CHURCH
COLUMBIA AREA EPISCOPAL OFFICE
STATEMENT OF CASH RECEIPTS AND DISBURSEMENTS
For the year ended December 31, 2011

CASH RECEIPTS

General Council on Finance and Administration	\$ <u>76,000</u>
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CASH DISBURSEMENTS

Support staff salaries	50,212
Support employee benefits	16,200
Staff travel	120
Equipment maintenance	992
Postage	872
Printing and copying	297
Professional entertainment	153
Rent	9,044
Office supplies	626
Miscellaneous	<u>5,713</u>
Total disbursements	<u>84,229</u>

Deficiency of cash receipts under cash disbursements	(8,229)
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CASH (DEFICIT)

BEGINNING OF YEAR	<u>(3,606)</u>
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END OF YEAR	<u><u>\$ (11,835)</u></u>
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Note: All funds come from the General Episcopal Fund