GEORGIA UNITED METHODIST FOUNDATION, INC.

FINANCIAL STATEMENTS
WITH
INDEPENDENT AUDITOR'S REPORT

DECEMBER 31, 2012 AND 2011

GEORGIA UNITED METHODIST FOUNDATION, INC.

TABLE OF CONTENTS

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INDEPENDENT AUDITOR'S REPORT

To the Board of Trustees of
Georgia United Methodist Foundation, Inc.:

We have audited the accompanying financial statements of the Georgia United Methodist Foundation, Inc. (the Foundation) which comprise the statements of financial position as of December 31, 2012 and 2011, and the related 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 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 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 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 audits to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the 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 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 financial statements.

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Georgia United Methodist Foundation, Inc., as of December 31, 2012 and 2011, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Brooks, McGinnis & Company, LLC

Atlanta, Georgia
May 16, 2013

GEORGIA UNITED METHODIST FOUNDATION, INC.
STATEMENT S OF FINANCIAL POSITION
DECEMBER 31, 2012 AND 2011

	2012	2011
Assets:		
Cash and cash equivalents	$ 1,241,790	$ 4,481,930
Certificates of deposit	1,052,727	1,029,572
Account and interest receivables	45,134	45,443
Investments - Foundation	8,322,027	7,112,146
Investments - held for others	64,916,407	61,194,194
Less unsecured promissory notes payable issued by the Foundation included in investments	(4,930,900)	(6,671,234)
Loans, net	24,232,327	20,783,031
Prepaid expenses and other assets	9,590	11,028
Donated real estate	-	505,000
Donated real estate available for sale, net	-	205,000
Other real estate owned	364,264	364,264
Property and equipment, net	14,710	16,402
Total assets	$ 95,268,076	$ 89,076,776
Liabilities:		
Accounts payable - trade	$ 6,138	$ 7,865
Accrued expenses and other liabilities	165,405	136,936
Managed funds held for others	48,432,234	44,167,245
Endowment funds held for others	13,654,580	12,804,551
Charitable remainder trust and gift annuity benefits payable	1,583,713	2,736,966
Charitable remainder trust and gift annuities deferred benefits payable	1,087,966	1,492,837
Unsecured promissory notes payable	27,394,250	26,888,195
Less unsecured promissory notes issued by the Foundation and included in investments	(4,930,900)	(6,671,234)
Total liabilities	87,393,386	81,563,361
Commitments and contingencies		
Net assets:		
Unrestricted	6,244,561	5,857,926
Temporarily restricted	1,496,966	1,522,326
Permanently restricted	133,163	133,163
Total net assets	7,874,690	7,513,415
Total liabilities and net assets	$ 95,268,076	$ 89,076,776

The accompanying notes are an integral part of these financial statements.

GEORGIA UNITED METHODIST FOUNDATION, INC.
STATEMENTS OF ACTIVITIES
FOR THE YEARS ENDED DECEMBER 31, 2012 AND 2011

	2012	2011
Changes in unrestricted net assets:		
Revenues, gains and support:		
Contributions	$ 31,841	$ 81,337
Asset management fees	304,103	288,110
Consulting fees	58,267	114,600
Interest income from loan program	1,163,937	1,119,612
Investment return	622,032	(5,935)
Lease revenue	27,280	27,280
Gain (loss) on sale of donated real estate	158,024	-
Other	5,273	3,221
Total unrestricted revenues and gains	2,370,757	1,628,225
Net assets released from restrictions	136,613	397,245
Total unrestricted revenues, gains and support	2,507,370	2,025,470
Expenses:		
Program services	1,830,121	1,960,215
General and administrative	290,614	269,562
Total expenses	2,120,735	2,229,777
Increase (decrease) in unrestricted net assets	386,635	(204,307)
Changes in temporarily restricted net assets:		
Contributions	79,938	89,135
Investment return	43,587	28,221
Change in value of split interest agreements	(12,272)	(12,806)
Net assets released from restrictions	(136,613)	(397,245)
Decrease in temporarily restricted net assets	(25,360)	(292,695)
Increase (decrease) in net assets	$ 361,275	$ (497,002)
Net assets at beginning of year	$ 7,513,415	$ 8,010,417
Increase (decrease) in net assets	361,275	(497,002)
Net assets at end of year	$ 7,874,690	$ 7,513,415

The accompanying notes are an integral part of these financial statements.

GEORGIA UNITED METHODIST FOUNDATION, INC.
STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED DECEMBER 31, 2012

	Program Services	General and Administrative	Total
Salaries and wages	$ 564,528	$ 174,965	$ 739,493
Payroll taxes and benefits	148,567	27,937	176,504
Total wages and benefits	713,095	202,902	915,997
Insurance	8,865	4,020	12,885
Interest expense	755,363	4,364	759,727
Office expenses	16,295	4,517	20,812
Rent	36,829	16,701	53,530
Repairs and maintenance	591	269	860
Professional fees	39,689	26,618	66,307
Costs associated with other real estate	16,293	-	16,293
Telephone	4,634	1,157	5,791
Computers and data processing	5,137	1,775	6,912
Depreciation	8,079	2,001	10,080
Dues and subscriptions		1,564	1,564
Fees	1,175	5,745	6,920
Travel and meetings	12,997	17,310	30,307
Grants to beneficiaries	153,283	-	153,283
Loan loss provision	34,000	-	34,000
Marketing and publicity	23,141	-	23,141
Other expenses	655	1,671	2,326
	$ 1,830,121	$ 290,614	$ 2,120,735

The accompanying notes are an integral part of these financial statements.

GEORGIA UNITED METHODIST FOUNDATION, INC.
STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED DECEMBER 31, 2011

	Program Services	General and Administrative	Total
Salaries and wages	$ 551,248	$ 140,471	$ 691,719
Payroll taxes and benefits	149,470	28,721	178,191
Total wages and benefits	700,718	169,192	869,910
Insurance	8,972	4,069	13,041
Interest expense	783,502	4,073	787,575
Office expenses	16,627	5,202	21,829
Rent	39,280	17,315	56,595
Repairs and maintenance	3,045	-	3,045
Professional fees	32,651	33,075	65,726
Costs associated with other real estate	15,304	-	15,304
Telephone	7,325	2,203	9,528
Computers and data processing	7,904	2,848	10,752
Depreciation	8,057	3,148	11,205
Dues and subscriptions	665	2,121	2,786
Fees	3,862	6,751	10,613
Travel and meetings	14,602	17,839	32,441
Consulting expense	19,728	-	19,728
Grants to beneficiaries	177,692	-	177,692
Provision for impairment of donated real estate available for sale	20,000	-	20,000
Bad debt - direct write off	25,028	-	25,028
Loan loss provision	53,000	-	53,000
Marketing and publicity	20,284	-	20,284
Other expenses	1,969	1,726	3,695
	$ 1,960,215	$ 269,562	$ 2,229,777

The accompanying notes are an integral part of these financial statements.

GEORGIA UNITED METHODIST FOUNDATION, INC.
STATEMENT S OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2012 AND 2011

	2012	2011
Cash flows from operating activities:		
Increase (decrease) in net assets	$ 361,275	$ (497,002)
Adjustments to reconcile increase (decrease) in net assets to net cash used in operating activities:		
Depreciation	10,080	11,205
Provision for loan losses	34,000	53,000
Provision for impairment of donated real estate	-	20,000
Gain on sale of donated real estate	(158,024)	-
Change in value of split interest agreements	12,272	12,806
Bad debt - direct write off	-	25,028
Unrealized (gain) loss on investments	(517,665)	83,600
Realized gain on investments	(40,274)	(9,360)
Endowed Funds appropriated for expenditure	265,348	348,115
Changes in assets and liabilities:		
(Increase) decrease in:		
Receivables	309	(17,169)
Prepaid expenses and other assets	1,438	(1,611)
Increase (decrease) in:		
Accounts payable	(1,727)	(19,049)
Accrued expenses	(96,151)	164,888
Total adjustments	(490,394)	671,453
Net cash provided by (used) operating activities	(129,119)	174,451
Cash flows from investing activities:		
Purchase of property and equipment	(8,388)	(12,865)
Purchase of investments	(1,489,838)	(251,548)
Proceeds from the sale of investments and donated stock	784,925	604,719
Endowed Funds appropriated for expenditure	(265,348)	(348,115)
Purchase of certificates of deposit	(23,155)	(904,572)
New mortgage loans made to churches	(6,280,527)	(11,709,395)
Repayments made on principal	3,156,390	2,008,615
Proceeds from the sale of donated real estate	868,024	-
Net cash used in investing activities	(3,257,917)	(10,613,161)

(Continued on next page)

The accompanying notes are an integral part of these financial statements.

GEORGIA UNITED METHODIST FOUNDATION, INC.
STATEMENTS OF CASH FLOWS - CONTINUED
FOR THE YEARS ENDED DECEMBER 31, 2012 AND 2011

	2012	2011
Cash flows from financing activities:		
Proceeds from unsecured promissory notes payable	11,362,068	9,049,044
Repayment of unsecured promissory notes payable	(10,856,013)	(3,095,394)
Loan participations received	(359,159)	4,429,654
Net cash provided (repaid) by financing activities	146,896	10,383,304
Net decrease in cash and cash equivalents	(3,240,140)	(55,406)
Cash and cash equivalents at beginning of year	4,481,930	4,537,336
Cash and cash equivalents at end of year	$ 1,241,790	$ 4,481,930
Supplemental disclosure of cash flow information:		
Change in funds held for others:		
Managed fund held for others	$ (4,264,989)	$ (2,697,995)
Charitable remainder trust and gift annuity benefits payable	1,153,253	(255,771)
Charitable remainder trust and gift annuity deferred benefits payable	404,871	(230,679)
Endowment funds held for others	(850,029)	1,582,297
Change in value of funds held for others	$ (3,556,894)	$ (1,602,148)
Interest paid on line of credit	$ 4,364	$ 4,073
Interest paid on development program certificates	777,938	740,927
Total interest paid	$ 782,302	$ 745,000

The accompanying notes are an integral part of these financial statements.

1. Nature of Organization and Significant Accounting Policies

Nature of Operations

The Georgia United Methodist Foundation, Inc. (the "Foundation") was formed on January 1, 2010, through the merging of the North Georgia United Methodist Foundation, Inc. and the South Georgia United Methodist Foundation, Inc. The newly formed Foundation is a religious, not-for-profit corporation providing services for affiliates of the United Methodist Church, including the Annual Conferences of the United Methodist Church (the Conference), local churches, other institutions, agencies, boards and individuals associated with the Methodist Church. The Foundation assists churches in the establishment of planned-giving programs, accepts and administers funds as both donee and manager for gifts and endowments, and provides loans and stewardship services to local churches and other institutions. All of these services are interrelated and are provided using common resources. Therefore, these services are treated as a single program on the statement of functional expenses.

Basis of Accounting and Presentation

The Foundation prepares its financial statements in accordance with generally accepted accounting principles "GAAP." This basis of accounting involves the application of accrual accounting; consequently, revenues and gains are recognized when earned, and expenses and losses are recognized when incurred.

To recognize limitations and restrictions placed on the use of resources available to the Foundation, resources are classified for accounting and financial reporting purposes into three categories established according to their nature and purposes. The assets, liabilities and net assets of the Foundation are reported in three categories as follows:

- Unrestricted net assets are resources that are neither permanently nor temporarily restricted by donor-imposed stipulations.

- Temporarily restricted net assets are resources whose use by the Foundation is limited by donor-imposed restrictions that either expire by the passage of time or can be fulfilled by actions of the Foundation.

- Permanently restricted net assets are those whose use by the Foundation is limited by donor-imposed stipulations requiring that the corpus be maintained in perpetuity.

1. Nature of Organization and Significant Accounting Policies - Continued

Revenue Recognition

Contributions (including unconditional promises to give i.e. pledges or private grants) are recognized as revenue in the year they are received or pledged, with allowances provided for pledges estimated to be uncollectible. Unconditional pledges or private grants that are expected to be collected within one year are recorded at net realizable value. Unconditional pledges or private grants that are expected to be collected in future years are recorded at the present value of their estimated future cash flows. The discounts on those amounts are computed using risk-adjusted interest rates applicable to the years in which the promises are received. Amortization of the discounts (if any) is included in contributions in the accompanying statements of activities and changes in net assets. Conditional pledges or private grants are not included as support until the conditions are substantially met.

The Foundation recognizes contributions as restricted support if they are received with donor imposed restrictions that limit the use of the donated assets. When a donor-imposed restriction is met or the passage of time expires, temporarily restricted net assets are reclassified to unrestricted net assets and presented in the accompanying statements of activities and changes in net assets as net assets released from restrictions.

Donated land, buildings, and equipment are recognized as unrestricted support unless explicit donor stipulations specify how the donated assets must be used. Gifts of long-lived assets with explicit restrictions that specify how the assets are to be used, as well as gifts of cash or other assets that must be used to acquire long-lived assets, are reported as restricted support. Absent explicit donor stipulations about how long those long-lived assets must be maintained, the Foundation reports expirations of donor restrictions when the donated or acquired long-lived assets are placed into service.

Donated Services

The Foundation records contributed services if the services received create or enhance long-lived assets or require specialized skills, are provided by individuals possessing those skills, and would typically need to be purchased if not provided by donation.

A number of unpaid volunteers, including those serving in the capacity of Board members, have made significant contributions of their time in the furtherance of the Foundation's programs. The value of this contributed time is not reflected in these financial statements since it does not meet the above recognition criteria.

1. Nature of Organization and Significant Accounting Policies - Continued

Donated Assets

Donated real estate and marketable securities acquired by gift are recorded at fair market value on the date of the donation.

Cash and Cash Equivalents

For purposes of the statement of cash flows, the Foundation considers all temporary cash investments, and highly liquid investments to be cash equivalents except money market funds included in the investment portfolio, which are included in investments.

Liquidity Reserve

The Foundation maintains a Liquidity Reserve of liquid or near liquid assets to ensure that it can meet its obligations in relation to the Private Placement Deposit Certificates outstanding. The Foundation intends to maintain sufficient liquidity to meet normal interest payments as they accrue and to repay principal amounts on outstanding certificates as they are presently projected to mature. The reserve amount shall not be less than ten percent (10%) of the first $1,000,000 in certificates outstanding, and five percent (5%) of any certificate amounts outstanding in excess of $1,000,000.

Investments

The Foundation records investments, including managed funds held for others, at fair value. Investments in marketable securities or equity mutual funds with readily determinable fair values and all investments in debt securities or fixed income funds are valued in the statement of financial position at their fair value. Fair value is determined by reference to exchange or dealer-quoted market prices. Gains or losses from investments are reflected in the statements of activities.

Loans and Interest Receivable

The Foundation extends loans to United Methodist Churches in the North and South Georgia Annual Conferences and related entities. These loans generally are for terms of one year to twenty years, with an interest rate reset every five years. The loans are secured by first mortgages on land and buildings and bear interest at various rates.

Loans are stated at the amount of unpaid principal less a valuation allowance for possible loan losses. The Foundation recognizes interest on the unpaid balance of the loans when earned.

1. Nature of Organization and Significant Accounting Policies - Continued

Nonaccrual Loans

The accrual of interest on impaired loans is discontinued when, in management's opinion, the borrower may be unable to meet payments as they become due. When interest accrual is discontinued, all unpaid interest is reversed against interest income. Interest income is subsequently recognized only to the extent cash payments are received.

A nonaccrual loan may be returned to an accruing status when (a) all delinquent interest and principal become current under the terms of the loan agreement or (b) the loan is both well-secured and in the process of collection and collectability is no longer doubtful.

Impaired Loans

Loans are considered to be impaired when, in management's judgment and based on current information, full collection of principal and interest becomes doubtful. A loan is also considered impaired if its terms are modified in a troubled debt restructuring. Impaired loans are placed in nonperforming status, and future payments are applied to principal until such time as collection of the obligation is no longer doubtful.

When the Foundation identifies a loan as impaired, the impairment is measured based on the present value of future cash flows, discounted at the loan's effective interest rate, except when the sole (remaining) source of repayment for the loan is the liquidation of collateral. In these cases, the current fair value of the collateral is used, less selling cost when foreclosure is probable.

In the event that the net realizable liquidation value of the collateral is less than the principal balance of the underlying mortgage loan, the anticipated deficiency balance is charged off.

To return to performing status, loans must be fully current, and continued timely payments must be a reasonable expectation. Loans that experience insignificant payment delays and payment shortfalls generally are not classified as impaired. Management determines the significance of payment delays and payment shortfalls on a case-by-case basis, taking into consideration all of the circumstances surrounding the loan and the borrower, including the length of the delay, the reasons for the delay, the borrower's prior payment record, and the amount of the shortfall in relation to the principal and interest owed.

1. Nature of Organization and Significant Accounting Policies - Continued

Allowance for Loan Losses

The allowance for loan losses is based on management's ongoing evaluation of the loan portfolio and reflects an amount that, in management's opinion, is adequate to absorb probable incurred losses in the loan portfolio. In evaluating the portfolio, management takes into consideration numerous factors, including current economic conditions, prior loan loss experience, the composition of the loan portfolio, and management's estimate of credit losses.

Loans are charged against the allowance at such time they are determined to be losses. Subsequent recoveries are credited to the allowance.

The allowance is composed of general allocations and specific allocations. General allocations are determined by applying loss percentages to the portfolio that are based on historical loss experience and management's evaluation of the "risk" of the Foundation's loan portfolio. Additionally, the general economic trends are included in this evaluation. The need for specific allocations may be required when, based on management's evaluation, the Foundation's risk exposure has increased given the current payment status and value of the underlying collateral of a specific loan. Loans for which specific allocations are provided have been excluded from the calculation of the general allocations.

Management considers the year-end allowance appropriate and adequate to cover probable incurred losses in the loan portfolio: however, management's judgment is based on a number of assumptions about current events, which are believed to be reasonable, but which may or may not prove to be valid. Thus, there can be no assurance that loan losses in future periods will not exceed the allowance for loan losses or that additional increases in the allowance for loan losses will not be required

Other Real Estate Owned

Other real estate includes real estate acquired through foreclosure. Other real estate is carried at the lower of its recorded amount at the date of foreclosure or estimated fair value less costs to sell based on independent appraisals. Any excess of the carrying value of the related loan over the fair value of the real estate at the data of foreclosure is charged against the allowance for loan losses. Fair value is principally based on independent appraisals performed by local credentialed appraisers. Any expense incurred in connection with holding such real estate or resulting from any write downs subsequent to foreclosure is included in expense. When the other real estate property is sold, a gain or loss is recognized on the sale for the difference between the sales proceeds and the carrying amount of the property.

1. Nature of Organization and Significant Accounting Policies - Continued

Property and Equipment

The Foundation capitalizes expenditures for property and equipment in excess of $500. Purchased property and equipment are carried at cost. Donated property and equipment are carried at the approximate fair value at the date of donation. Depreciation is provided on the straight-line basis over the estimated useful lives of the assets. These lives are estimated at three to five years for computer equipment and software, and five to seven years for furniture and equipment. When property and equipment are retired or otherwise disposed of, the related cost and accumulated depreciation are removed from the respective accounts and any gain or loss resulting from the disposition is reported in the statements of activities.

Managed Funds Held for Others

The Foundation holds and manages investments, which belong to the Annual Conferences, United Methodist churches, institutions, and agencies. These investments have been reported as a liability for amounts held for others rather than being recognized as revenue to the Foundation.

Use of 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 reflect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Functional Allocation of Expenses

The costs of providing the various programs and other activities are summarized on a functional basis. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

Income Tax Status

The Foundation is a not-for-profit organization exempt from income taxes under the provisions of Internal Revenue Code Section 501(c)(3). Accordingly, no provisions for federal and state income taxes have been recorded in the accompanying financial statements. The Foundation believes that it has appropriate support for any tax positions taken and as such, does not have any uncertain tax positions (based on a “more-likely-than-not” standard for substantiation) that are material to the financial statements. As of December 31, 2012 and 2011, years 2009-2011 remain open for examination by federal and state authorities.

1. Nature of Organization and Significant Accounting Policies - Continued

Subsequent Events

Management has reviewed, through May 16, 2013, (the date which these financial statements were available to be issued), events occurring subsequent to December 31, 2012 in order to evaluate their impact on these financial statements. In accordance with GAAP, there are two types of subsequent events:

Recognized subsequent events – These are events or transactions that provide evidence about conditions that existed at the date of the statements of financial position, including estimates inherent in the process of preparing financial statements. All such evidence known to management through the date that these financial statements were available to be issued has been factored into the preparation of these financial statements.

Non-recognized subsequent events – These are events or transactions that did not exist at the date of the balance sheet but arose subsequent to that date, and thus are not recognized in the balance presented in these financial statements. These events may be disclosed, however, in order to inform the users of the financial statements.

Endowment Funds Held for Others

The Foundation receives, manages and administers a collection of funds which belong to the Annual Conferences, United Methodist churches, institutions, agencies and individuals. These accounts have different restrictions based on the donors' intent when the funds were transferred to the Foundation. The requirements primarily center around annual and quarterly distributions to a charitable entity, such as, a cemetery, church, scholarship fund, etc. The corresponding liability for these investments is reported as Endowment Funds Held for Others.

Charitable Remainder Trust and Gift Annuities and Deferred Benefits Payable

The Foundation receives gift annuities for its benefit and for the benefit of third parties which stipulate that periodic payments be made from the gifts to designated parties for the lives of those parties. The Foundation uses the rates published by the American Council of Gift Annuities to compute and establish the periodic payments that will used over the life of the annuity and classifies this amount as annuities payable, which is included in the "Charitable Remainder Trust and Gift Annuities Payable" section of the statement of financial position. The Foundation uses the Social Security Administration's life-expectancy tables to compute the estimates of present value. The estimated remaining amount of the gift that will be paid to a third party charity upon the death of the annuitant is included in "Charitable Remainder Trust and Gift Annuities Deferred Benefits Payable". If a portion of the gift annuity is to be left to the Foundation, the excess of the annuity gift over the present value of the estimated liability is

1. Nature of Organization and Significant Accounting Policies - Continued

Charitable Remainder Trust and Gift Annuities and Deferred Benefits Payable - Continued

recorded as a contribution upon the death of the annuitant. Any change in the present value of the annuity payable is charged or credited to income annually.

The Foundation also receives contributions which are various types of split interest agreements. These accounts are treated in the same manner as the gift annuities except that the amount of the periodic payment to the beneficiary is recomputed annually. At the end of the trust term, or upon the death of the beneficiary, any remaining balance is paid to the designated charitable beneficiary or is recorded as a contribution to the Foundation if the Foundation has variance power.

Fair Value Measurement

The Foundation utilizes fair value measurement to record fair value adjustments to certain assets and liabilities and to determine fair value disclosures. Investment securities are recorded at fair value on a recurring basis. From time to time, the Foundation may be required to record at fair value other assets on a non-recurring basis, such as loans and certain other assets. The nonrecurring fair value adjustment typically involves the application of write-downs of individual assets. In addition, the Foundation is required to disclose, but not record, the fair value of other financial instruments.

Fair Value Hierarchy

The Foundation groups assets and liabilities at fair value in three levels, based on the markets in which the assets and liabilities are traded and the reliability of assumptions used to determine fair value. These levels are:

Level 1 – Inputs that utilize quoted prices in active markets for identical assets or liabilities that the Foundation has the ability to access.

Level 2 – Inputs that include quoted prices for similar assets and liabilities in active markets and inputs that are observable for the asset and liability, either directly or indirectly, for substantially the full term of the financial instrument.

Level 3 – Inputs that are unobservable for the asset and liability, which are typically based on an entity's own assumptions, as there is little, if any, related market activity.

In instances where the determination of fair value measurement is based on inputs from different levels of the fair value hierarchy, the level in the fair value hierarchy within which the entire fair value measurement falls is based on the lowest level input that is significant to the fair value measurement of the entire entity.

1. Nature of Organization and Significant Accounting Policies - Continued

Fair Value Measurement - Continued

Following is a description of valuation methodologies used for assets and liabilities recorded at fair value:

Cash and Cash Equivalents

Short term financial assets include cash, interest bearing deposits and cash equivalents. These assets are carried at historical cost. The carrying amount is a reasonable estimate of fair value because of the relatively short time between the origination and its expected realization.

Investments

Investment balances reported as Level 1 are derived from quoted market prices on public exchanges. Funds classified as Level 2 and 3 consist of investments in units of private funds to which proportionate net assets can be attributed. The Foundation maintains the ability to redeem these investments at the net asset value (NAV) reported by the investee managers and therefore uses these amounts to derive the reported investment values.

Loans

The Foundation does not record loans at fair value on a recurring basis. However, from time to time, a loan is considered impaired and an allowance for loan losses is established. The fair value of impaired loans is estimated using one of several methods including collateral value and discounted cash flows. When the impaired loan is valued using the underlying collateral, the Foundation records the impaired loan as Level 2. When an appraised value is not available and other methods are used to determine the loan's fair value, the Foundation records the loan as Level 3.

Deposit Liabilities

For disclosure purposes, the fair value of fixed maturity private placement deposit certificates is estimated by discounting the future cash flows using the rates currently offered for certificates of deposit with similar remaining maturities. The fair value of the fixed maturity private placement deposit certificates was $27,394,250 and $26,888,195 at December 31, 2012 and 2011, respectively.

1. Nature of Organization and Significant Accounting Policies - Continued

Fair Value Measurement - Continued

The table below presents the recorded amount of assets and liabilities measured at fair value on a recurring basis:

	At December 31,	
Investment securities	2012	2011
Level 1	$ 4,420,315	$ 3,787,316
Level 2	3,389,378	2,870,742
Level 3	512,334	454,088
Total	$ 8,322,027	$ 7,112,146

Assets measured at fair value on a nonrecurring basis are included below:

	At December 31,	
Donated and other real estate	2012	2011
Level 2	$ 364,264	$ 1,074,264
Total	$ 364,264	$ 1,074,264

New Accounting Pronouncement

In May 2011, the Financial Accounting Standards Board issued Accounting Standards Update (ASU) No. 2011-04, "Fair Value Measurements (Topic 820): Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in US GAAP and IFRS." These amendments were effective for the fiscal year ending December 31, 2012. ASU No. 2011-04 clarifies or changes certain fair value measurement principles and enhances the disclosure requirements, particularly for level 3 fair value measurements. The adoption of ASU No. 2011-04 did not have a material impact on the Foundation's financial position or results of operation.

Endowment Funds

As described in Note 13, the purpose of the Foundation's Endowment Funds is to generate investment return that can be used to support the Foundation's operating activities. Accordingly, the Foundation liquidates for distribution a portion of the Endowment Funds based on the Foundation's spending policy. This appropriation to support operating activities is shown in the Statement of Cash Flows as a decrease in investing cash and an increase in operating cash.

1. Nature of Organization and Significant Accounting Policies - Continued

Reclassification of Amounts

Certain amounts previously reported have been reclassified to conform to the current year financial statement presentation.

2. Cash and Cash Equivalents

Cash and cash equivalents consist of the following:

	2012	2011
Unrestricted cash	$ 964,944	$ 4,227,662
Board designated liquidity reserve	276,846	254,268
Total cash and equivalents	$ 1,241,790	$ 4,481,930

At December 31, 2012, the Board designated liquidity reserve also included $1,052,727 in Certificates of Deposits making the total liquidity reserve $1,329,573.

3. Investment Assets

The Foundation's Equity Fund is comprised of two private funds established by the General Board of Pension and Health Benefits of The United Methodist Church. (the GBOP) through its Wespath program. All funds are managed through Wespath Investment Management which is the investment management division of the GBOP. The GBOP follows a policy of Socially Responsible Investing. This policy is mandated by the United Methodist Church for all United Methodist entities including the Foundation. The Foundation's choice of using these Funds is to ensure that the Foundation's investments comply with the investment policy set forth in The Book of Discipline of the United Methodist Church.

The GBOP Equity Funds are made up of a combination of exchange-traded companies (both foreign and domestic), real estate and private equity limited partnerships and are described as private funds. Per the GBOP, the real estate and private equity partnerships are valued using the net asset value. As the Foundation's Equity Fund is made up of a combination of GBOP's Equity Funds which are not exchange-traded and include underlying assets valued using NAV, these investments are considered Level 2 and 3 investments. Amounts up to $1,000,000 in private funds held by the GBOP can be redeemed daily without a redemption notice period. Redemption over $1,000,000 require a 15 day notice period.

Unsecured Promissory Notes Payable issued by the Foundation are essentially deposit instruments carried at cost, which approximates fair value and are considered Level 1 investments. Additionally, at December 31, 2012, the Foundation held money market funds and cash comprising approximately 7% of total investment assets. Money market funds are carried at their cost value, which approximates fair value and are therefore Level 1 investments.

3. Investment Assets - Continued

The Fixed Income Fund is comprised of a selection of exchange-traded fixed income funds and therefore is considered a Level 1 investment.

Investments of the Foundation are stated at fair value and are summarized as follows:

Description	12/31/2012	Quoted Market Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Money market funds	$ 970,995	$ 970,995	$ -	$ -
Exchange traded fixed income mutual funds:				
Intermediate	2,284,855	2,284,855	-	-
Short Term Bank Loan	254,465	254,465	-	-
Unsecured promissory notes issued by the Foundation	910,000	910,000	-	-
Other private funds:				
U.S. equity :				
Large cap core	586,586	-	586,586	-
Large cap growth	648,332	-	648,332	-
Large cap value	679,205	-	679,205	-
Mid cap core	216,111	-	216,111	-
Mid cap growth	123,492	-	123,492	-
Small cap core	216,111	-	216,111	-
Small cap growth	308,730	-	308,730	-
Domestic REITs	61,746	-	-	61,746
Alternative -private equity partnerships	92,619	-	-	92,619
Alternative -real estate	154,365	-	-	154,365
International equity :				
Emerging markets	146,595	-		146,595
Small cap international	130,306	-	130,306	-
International large cap	480,505	-	480,505	-
International REITs	48,865	-	-	48,865
International private equity	8,144	-	-	8,144
	$ 8,322,027	$ 4,420,315	$ 3,389,378	$ 512,334

3. Investment Assets - Continued

Description	12/31/2011	Quoted Market Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Money market funds	$ 547,599	$ 547,599	$ -	$ -
Exchange traded fixed income mutual funds				
Intermediate	1,911,786	1,911,786	-	-
High Yield	207,931	207,931	-	-
Unsecured promissory notes issued by the Foundation	1,120,000	1,120,000	-	-
Other private funds:				
U.S. equity funds				
Large cap core	521,977	-	521,977	-
Large cap growth	548,076	-	548,076	-
Large cap value	548,076	-	548,076	-
Mid cap core	182,692	-	182,692	-
Mid cap growth	78,296	-	78,296	-
Small cap core	130,494	-	130,494	-
Small cap growth	260,988	-	260,988	-
Domestic REITs	130,494	-	-	130,494
Alternative -private equity partnerships	156,593	-	-	156,593
Alternative -real estate	52,197	-	-	52,197
International equity funds				
Core developed international	287,009	-	287,009	-
International growth	102,047	-	102,047	-
Emerging markets	114,804	-	-	114,804
Small cap international	95,670	-	95,670	-
International large cap	38,268	-	38,268	-
International equity	77,149	-	77,149	-
	$ 7,112,146	$ 3,787,316	$ 2,870,742	$ 454,088

3. Investment Assets - Continued

The following schedule summarizes the investment loss or return on the Foundation's investments in the statements of activities at December 31:

		2012		2011
Dividend and interest income	$	107,680	$	96,526
Realized gain on investments		40,274		9,360
Unrealized (loss) gain on investments		517,665		(83,600)
Total investment return-Foundation	$	665,619	$	22,286

Expenses related to investment revenues, including custodial fees and investment advisory fees, amounted to $31,962 and $31,276 in 2012 and 2011, respectively, and have been netted against investment revenues in both the above schedule and in the accompanying statements of activities.

Activity for the Foundation's alternative funds which are measured at fair value on a recurring basis using unobservable inputs are summarized below for the years ending December 31:

Beginning balance	$	454,088	$	379,155
Purchases		36,192		151,270
Sales		(17,438)		(55,170)
Net appreciation		39,492		(21,167)
Ending balance	$	512,334	$	454,088

With regard to the investments that the Foundation manages and holds for the United Methodist churches, church members, affiliated institutions, and other agencies, these investments are broken down into the following investment management categories:

		2012		2011
Managed funds held for others	$	48,590,148	$	44,191,491
Endowment funds held for others		13,654,580		12,804,551
Gift annuities and charitable remainder trusts		2,671,679		4,198,152
Total investments held for others	$	64,916,407	$	61,194,194

3. Investment Assets - Continued

These investments held for others are stated at fair value and are summarized as follows by category of type of investment:

Description	12/31/2012	Quoted Market Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Money market funds	$ 4,303,523	$ 4,303,523	$ -	$ -
Exchange traded US equity mutual funds:				
Large cap core	305,757	305,757	-	-
Large cap growth	91,039	91,039	-	-
Mid cap growth	41,850	41,850	-	-
Mid cap blend	40,958	40,958	-	-
Small cap growth	26,031	26,031	-	-
Equity income	77,553	77,553	-	-
Flexible portfolio	23,753	23,753	-	-
Emerging markets	40,166	40,166	-	
Exchange traded International equity mutual funds:				
International large cap growth	48,380	48,380	-	-
International growth fund	47,459	47,459	-	-
International small cap	26,465	26,465	-	-
Exchange traded fixed income mutual funds:				
Intermediate	17,708,102	17,708,102	-	-
Short Term	1,081,809	1,081,809	-	-
Short term high yield bank loan	1,866,077	1,866,077	-	-
Unsecured promissory notes issued by the Foundation	4,020,900	4,020,900	-	-
Corporate Bonds	12,682	12,682	-	-
Common Stocks				
Utilities	4,281	4,281	-	-
Medical supplies	4,102	4,102	-	-
Information technology	30,108	30,108	-	-

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3. Investment Assets - Continued

Description	12/31/2012	Quoted Market Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Other commingled funds:				
US equity :				
Large Cap Core	5,279,278	-	5,279,278	-
Large Cap Growth	5,834,992	-	5,834,992	-
Large Cap Value	6,112,848	-	6,112,848	-
Mid Cap Core	1,944,997	-	1,944,997	-
Mid Cap Growth	1,111,427	-	1,111,427	-
Small Cap Core	1,944,997	-	1,944,997	-
Small Cap Growth	2,778,568	-	2,778,568	-
Domestic REITs	555,714	-	-	555,714
Alternative -Private Equity Partnerships	833,570	-	-	833,570
Alternative -Real Estate	1,389,284	-	-	1,389,284
International Equity :				
Emerging Markets	1,319,353	-	-	1,319,353
Small Cap International	4,324,545	-	4,324,545	-
International Large Cap	1,172,758	-	1,172,758	-
International REITs	439,784	-	-	439,784
International Private Equity	73,297	-	-	73,297
	$ 64,916,407	$ 29,800,995	$ 30,504,410	$ 4,611,002

3. Investment Assets - Continued

These investments held for others are stated at fair value and are summarized as follows by category of type of investment:

Description	12/31/2011	Quoted Market Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Money market funds	$ 3,614,067	$ 3,614,067	$ -	$ -
Exchange traded equity mutual funds				
Large Cap Core	422,201	422,201	-	-
Large Cap Growth	78,570	78,570	-	-
Mid Cap Core	45,569	45,569	-	-
Mid Cap Growth	45,569	45,569	-	-
Small Cap Core	27,977	27,977	-	-
Flexible Portfolio	26,282	26,282	-	-
Emerging Markets	42,178	42,178	-	-
International Equity Mutual Funds				
International Growth	52,987	52,987	-	-
Small Cap International	30,521	30,521	-	-
International Large Cap	54,259	54,259	-	-
Fixed Income Mutual Funds				
Intermediate	15,217,005	15,217,005	-	-
High Yield	1,540,173	1,540,173	-	-
Short Term	3,556,912	3,556,912	-	-
Corporate Bonds	34,237	34,237	-	-
Municipal bond	5,000	5,000	-	-
Unsecured promissory notes issued by the Foundation	5,551,234	5,551,234	-	-
Common Stocks				
Consumer goods	15,002	15,002	-	-
Utilities	4,650	4,650	-	-
Technology	28,283	28,283	-	-

(Continued on next page)

3. Investment Assets - Continued

Description	12/31/2011	Quoted Market Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Other commingled funds				
US equity fund				
Large cap core	4,950,509	-	4,950,509	-
Large cap growth	5,198,035	-	5,198,035	-
Large cap value	5,198,035	-	5,198,035	-
Mid cap core	1,732,678	-	1,732,678	-
Mid cap growth	742,575	-	742,575	-
Small cap core	1,237,627	-	1,237,627	-
Small cap growth	2,475,255	-	2,475,255	
Domestic REITs	1,237,627	-	-	1,237,627
Alternative -private equity partnerships	1,485,153	-	-	1,485,153
Alternative -real estate	495,051	-	-	495,051
International equity fund				
Core developed international	2,722,038	-	2,722,038	-
International growth	967,836	-	967,836	-
Emerging markets	1,088,815	-	-	1,088,815
Small cap international	907,346	-	907,346	-
International REITs	362,938	-	-	362,938
	$ 61,194,194	$ 30,392,676	$ 26,131,934	$ 4,669,584

The total amount of unsecured promissory notes payable issued by the Foundation and included in the above investment categories was $4,930,900 and $6,671,234 at December 31, 2012 and 2011, respectively. Accordingly, these amounts have been reflected as reductions in Statements of Financial Position.

4. Loans

The Foundation's loan portfolio consists of forty-eight (48) loans to churches and entities associated with the Conference, and these loans were made out of a pool of funds invested with the Foundation through the Development Fund Program. The Foundation approves these loans based upon specific Board approved criteria, and all loans are secured by the individual entity's land, buildings, and equipment. In order to reduce its risk and to diversify the portfolio, the Foundation, under terms and limits established by the Board of Trustees, may sell portions of larger loans to other entities in the form of participations.

The purpose of the Foundation's loan program is to make first-lien mortgage loans to church congregations, districts, mission institutions and extension agencies within the Annual Conference s for the purchase, construction, expansion or major improvements of churches, parsonages or mission buildings, or the refinancing of loans made for those purposes. Construction period loans are interest-only until the construction period is complete and the construction loan is closed into a permanent loan. Terms of the non-construction loans range from five to twenty years. Loans with terms longer than five years typically have an interest rate reset provision where the interest rate paid during the loan is renegotiated every five years to the market rate at that time. At December 31, 2012, interest rates ranged from 4.50% to 5.95% depending on the loan.

Major classifications of loans are as follows at December 31:

	2012	2011
Term loans	$ 23,260,770	$ 20,330,596
Construction period loans	1,180,557	627,435
	24,441,327	20,958,031
Less: Allowance for loan losses	(209,000)	(175,000)
Loans, net	$ 24,232,327	$ 20,783,031

The Foundation considers a loan to be impaired when it is probable that it will be unable to collect all amounts due according to the original terms of the loan agreement. Impaired loans may include loans which are not accruing. Nonaccrual loans are those in which the collection of interest is not probable and all cash flows are recorded as reductions in principal. Amounts of impaired loans that are not probable of collection are charged off immediately. At December 31, 2012 and 2011, the Foundation has no loans it considered impaired.

5. Allowance for Loan Losses

A summary of changes in the allowance for loan losses is as follows:

	2012	2011
Beginning balance	$ 175,000	$ 122,000
Additional provision	34,000	53,000
Ending balance	$ 209,000	$ 175,000

6. Other Real Estate Owned

The Foundation's other real estate consists of one special use property with a church building and as described in note 19, this was sold in February 2013.

7. Donated Real Estate

An individual (donor) deeded a house to the Foundation. The donor was to remain in the home and was responsible for the utilities, cleaning and landscape maintenance until the donor expires or permanently moves out of the home. The Foundation was responsible for the insurance, taxes and major repairs as long as the donor remained in the house. Upon the donor's death or permanent move from the home, the house was to be sold and the proceeds from the sale would become unrestricted. At December 31, 2011 the value of the house was estimated to be $205,000. In 2011 the donor moved out of the home and allowed the Foundation to list the home for sale. During 2012, this home was sold for $204,024, net of closing costs, resulting in a loss from sale of donated real estate of $976.

In 2002, South Georgia United Methodist Foundation, Inc. received 681.9 acres of land located in Evans County, Georgia. The Foundation receives an annual lease payment of $27,280 for the use of the land. The lessee has been granted an option to purchase the land in 2014 for a price of $1,000 per square acre, for a total of $682,000. As the lessee had made no indication that they would exercise this option, the land was recorded at the value assessed by the county for property tax which was $505,000. During 2012, the lessee negotiated an early purchase of the land for $664,000 resulting in a gain on sale from donated real estate of $159,000. Accordingly, there was no balance in donated real estate at December 31, 2012.

8. Property and Equipment

Property and equipment consist of the following at December 31:

	2012	2011
Computers and equipment	$ 36,987	$ 36,190
Software	9,419	9,419
Furniture and fixtures	34,460	34,460
	80,866	80,069
Less: accumulated depreciation	(66,156)	(63,667)
Property and equipment, net	$ 14,710	$ 16,402

9. Unsecured Promissory Notes Payable

The Foundation issues unsecured promissory notes payable in the form of Term Certificates to fund its lending program. Previously, these certificates had been registered with the Securities Commissioner of the State of Georgia pursuant to Section 10-5-22 of the Georgia Securities Act of 2008, as amended. The terms and conditions of these certificates are set forth in the Offering Memorandums. Under the terms of these Offering Memorandums, the funds are not revolving so when a block of certificates mature, certificates cannot be reissued under the same Offering.

On July 1, 2009, Georgia Securities Code Section 10-5-10(7), Exemptions From Registrations, became effect. In 2012, the Foundation filed an Offering to issue up to $7.5 million unregistered, unsecured promissory notes through July 14, 2013. At December 31, 2012, approximately $2.6 million had been issued against this $7.5 million.

Promissory notes payable (certificates) consist of the following at December 31:

	2012	2011
One year term certificates	$ 6,028,560	$ 2,071,317
Two year term certificates	1,561,323	2,336,686
Three year term certificates	7,048,598	11,260,557
Four year term certificates	12,755,769	11,219,635
	$ 27,394,250	$ 26,888,195

Term notes have maturity dates ranging from one year to four years and paid interest in the range of 1.05% to 4.05% during 2012 depending upon the term of the certificate and the amount deposited.

9. Unsecured Promissory Notes Payable - Continued

The scheduled maturities for demand and time deposits are as follows:

2013	$	11,314,615
2014		10,164,385
2015		2,896,049
2016		3,019,201
	$	27,394,250

10. Line of Credit

The Foundation has a $750,000 unsecured line of credit with SunTrust Bank, to be drawn upon as needed. No balance was outstanding at both December 31, 2012 and 2011.

11. Temporarily Restricted Net Assets

Temporarily restricted net assets consist of the following at December 31:

Donor advised funds	$	1,390,650	$	1,403,744
Split interest agreements		104,944		117,214
Program restriction-missions		1,372		1,368
Total temporarily restricted net assets	$	1,496,966	$	1,522,326

12. Net Assets Released from Restrictions

Net assets were released from donor restrictions by incurring expenditures satisfying the restricted purpose or by occurrence of other events specified by the donor for various programs. Total net assets released from restrictions for the years ended December 31, 2012 and 2011 amounted to $136,613 and $397,245, respectively.

13. Endowed Net Assets

The purpose of the Foundation's Endowment Funds is to generate investment return that can be used to support the Foundation's operating activities.

When the Endowment Funds began, the initial contributions included donor restrictions related to spending only income. During the ensuing years, undesignated contributions received by the Foundation were transferred into the Endowment Fund and designated by the Board of Trustees to function as an Endowment Fund.

Net assets associated with endowment funds, including funds designated by the Board of Trustees to function as endowment, are classified and reported based on the existence or absence of donor-imposed restrictions.

The Foundation follows the requirements of Georgia's Uniform Prudent Management of Institutional Funds Act (the Act) which became law July 1, 2008. Upon receipt of gifts and bequests, the Foundation evaluates the gift instrument and related information to determine the directions and intentions of the donor.

Under the Act, all earnings for permanently restricted funds are considered temporarily restricted until appropriated for expenditure. As of December 31, 2012, the accumulated earnings for the board designated endowment funds were classified as unrestricted net assets.

From time to time, the fair value of invested assets associated with individual donor restricted endowment funds may fall below the level that the donor requires the Foundation to retain as a fund of perpetual duration. There were no such deficiencies as of December 31, 2012.

The Foundation has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to the operations supported by its endowment while seeking to maintain the purchasing power of the endowment assets. Under this policy, as approved by the Board of Trustees, the endowment assets are invested in a manner that is intended to produce an annual return in excess of the CPI plus 3% while maintaining prudent risk limits. Actual returns in any given year may vary from the objective.

The Foundation has a policy of appropriating for distribution each year 4.5% of a 12 quarter moving average of the Endowment Fund portfolio value, ending on the last trading day in September. The amount calculated is budgeted for spending during the following year.

13. Endowed Net Assets – Continued

Endowment net assets by type of fund and related changes consisted of the following as of December 31, 2012:

	Unrestricted	Permanently Restricted	Total
Endowment net assets, beginning of year	$ 5,527,334	$ 133,163	$ 5,660,497
Investment return:			
Investment income	50,486	-	50,486
Transfers in	873,026	-	873,026
Net appreciation (realized and unrealized)	549,050	-	549,050
	1,472,562	-	1,472,562
Contributions	-	-	-
Assets appropriated for expenditure	(265,348)	-	(265,348)
Endowment net assets, end of year	$ 6,734,548	$ 133,163	$ 6,867,711

Endowment net assets by type of fund and related changes consisted of the following as of December 31, 2011:

	Unrestricted	Permanently Restricted	Total
Endowment net assets, beginning of year	$ 5,839,206	$ 133,163	$ 5,972,369
Investment return:			
Investment income	57,909	-	57,909
Net appreciation (realized and unrealized)	(73,448)	-	(73,448)
	(15,539)	-	(15,539)
Contributions	51,782	-	51,782
Assets appropriated for expenditure	(348,115)	-	(348,115)
Endowment net assets, end of year	$ 5,527,334	$ 133,163	$ 5,660,497

14. Pension Plan

Foundation employees participate in two separate pension plans sponsored by the United Methodist Church's General Board of Pensions. For participants in the Defined Contribution plan, the Foundation contributes six percent (6%) of the employee's salary. Each conference-appointed clergy can participate in one of several plans. Presently, the clergy employees participate in either or both a Defined Contribution Plan and/or a Defined Benefit Plan where the Foundation contributes a percentage. This percentage ranged between twelve (12%) and thirteen (13%) of the participants' salary. Pension expense for all employees totaled $61,750 and $56,983 for the years ending December 31, 2012 and 2011, respectively.

15. Operating Lease Commitment

The Foundation leases its office space under a five-year noncancelable operating lease with an escalating lease payments provision. Rent expense was $53,530 and $56,595 for the years ended December 31, 2012 and 2011, respectively.

The future minimum annual rental commitment due under this lease agreement is as follows:

2013	$ 53,923
2014	55,487
2015	42,514
	$ 151,924

16. Related Party Transactions

While the Foundation is an autonomous legal entity, its purpose has always been to support the functions of the Annual Conferences, its churches, members and affiliates. Therefore the great majority of its activities are with parties related to the Church, Annual Conferences and its connectional units, local church congregations, etc. Accordingly related party transactions include the following:

- The Foundation has invested funds from the Annual Conferences, local UMC churches, and related individuals that had a fair value of $64,916,407 and $61,194,194 at December 31, 2012 and 2011, respectively. The Foundation's entire mortgage loan program ($24,232,327 and $20,783,031 receivable at December 31, 2012 and 2011, respectively) and the development fund certificate program ($27,394,250 and $26,888,195 liability at December 31, 2012 and 2011, respectively) are made up of related churches, Conference-related Foundations, and individuals.

16. Related Party Transactions - Continued

- Several members of the Board of Trustees belong to Churches and Conference related entities that have loans with the Foundation.

- Several members of the Board of Trustees have invested personally in the private placement certificates of deposit totaling $561,231 and $506,397 at December 31, 2012, and 2011, respectively.

- A member of the Board of Trustees has contributed to a donor advised fund with a market value of $1,201,577 and $1,217,457 at December 31, 2012 and 2011, respectively. This trustee also had an active guarantee on a church loan with an outstanding balance of $228,567 at December 31, 2012.

- A member of the Board of Trustees has established an endowment managed by the Foundation with a total market value of $144,493 and $129,699 at December 31, 2012 and 2011, respectively.

- Several Board Members have gift annuities and unitrusts managed by the Foundation with a total market value of $334,232 and $342,222 at December 31, 2012 and 2011, respectively .

- Several employees have invested personally in the private placement certificates of deposit totaling $35,045 and $39,269 at December 31, 2012, and 2011, respectively.

- Several employees have contributed to donor advised funds with a market value of $13,182 and $13,101 at December 31, 2012 and 2011, respectively.

- As reflected in Note 3, investments include unsecured promissory notes payable issued by the Foundation in the total amount of $4,930,900 and $6,671,234 at December 31, 2012 and 2011. Accordingly this amount has been eliminated in the Statement of Financial Position.

17. Funds Held as Agent

The Foundation enters into designated fund agreements with various entities for the purpose of establishing funds in the Foundation's trustee investment account. These 391 accounts are primarily invested in funds established by the Georgia United Methodist Foundation, Inc.

The Foundation charges a fee to administer the funds for each entity. This fee is received on a quarterly basis and it is based upon the market value of the account at quarter-end. The various entities can withdraw their funds at any time with the appropriate notice. At December 31, 2012 and 2011, the market value of all of these accounts totaled $64,916,407 and $61,194,194, respectively.

18. Concentration of Credit Risk and Other Concentrations

Financial instruments that potentially subject the Foundation to concentrations of credit risk consist principally of cash and investments. The Foundation has a significant concentration of cash deposited in three financial institutions, and the account balances exceed federal insurance limits. The Foundation's bank account balances, as reflected in the bank records, are insured by the Federal Deposit Insurance Corporation (FDIC) up to $250,000. The Foundation's cash balances exceeded the FDIC-insured limit by approximately $5,930,358 and $3,941,688 at December 31, 2012 and 2011. Funds held in money market investments are not covered by FDIC insurance.

The Foundation's investments, other than loans, do not represent a significant concentration of credit risk due to the diversification of the Foundation's portfolio among instruments and issues. However, 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 near-term could materially affect the amounts reported on the statement of financial position.

The Foundation receives deposits related to its certificate program from various entities who all reside in the State of Georgia. The Foundation also makes loans to churches throughout the state of Georgia. Changes in economic conditions in these areas could affect the Foundation's ability to receive mortgage payments from churches and pay their obligations under the certificate program. The limited geographic area in which the Foundation operates increases the Foundation's exposure to certain business concentrations.

19. Subsequent Event

In February 2013, the Foundation sold the other real estate taken in lieu of foreclosure during 2010 for $412,998 resulting in a gain on sale of $48,734.