

NORTH GEORGIA UNITED  
METHODIST FOUNDATION, INC.

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FINANCIAL STATEMENTS  
WITH  
INDEPENDENT AUDITOR'S REPORT  
DECEMBER 31, 2009, 2008 AND 2007

NORTH GEORGIA UNITED METHODIST FOUNDATION, INC.

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## INDEPENDENT AUDITOR'S REPORT

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

We have audited the accompanying statements of financial position of the North Georgia United Methodist Foundation, Inc. (the Foundation) as of December 31, 2009, 2008 and 2007, and the related statements of activities, functional expenses, and cash flows for the years then ended. These financial statements are the responsibility of the Foundation's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the North Georgia United Methodist Foundation, Inc. as of December 31, 2009, 2008 and 2007, and the changes in its net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

*Brooks, McGinnis & Company, LLC*

Atlanta, Georgia  
May 28, 2010

NORTH GEORGIA UNITED METHODIST FOUNDATION, INC.  
 STATEMENTS OF FINANCIAL POSITION  
 DECEMBER 31, 2009, 2008 AND 2007

	2009	RESTATED 2008	RESTATED 2007
<b>ASSETS</b>			
Cash and cash equivalents	\$ 992,370	\$ 1,187,800	\$ 415,801
Certificates of deposit	125,000	350,000	-
Unconditional promises to give	-	100,000	100,000
Account and interest receivables	30,284	48,247	55,077
Investments - Foundation	4,503,895	4,562,290	4,380,759
Investments - held for others	40,080,720	36,589,699	48,454,737
Loans, net	10,704,207	8,145,769	7,161,008
Prepaid expenses and other assets	3,624	3,581	3,043
Property and equipment, net	23,843	26,020	39,025
Total assets	\$ 56,463,943	\$ 51,013,406	\$ 60,609,450

**LIABILITIES AND NET ASSETS**

Liabilities:

Accounts payable - trade	\$ 11,084	\$ 11,954	\$ 31,633
Accrued expenses	81,837	80,109	57,002
Managed funds held for other	33,708,781	30,773,941	41,722,506
Endowment funds held for others	3,329,201	2,900,360	2,914,358
Charitable remainder trust and gift annuity benefits payable	1,646,691	1,919,585	2,096,739
Charitable remainder trust and gift annuities deferred benefits payable	1,299,927	955,455	1,745,637
Unsecured promissory notes payable	12,181,129	10,279,286	6,481,531
Total liabilities	52,258,650	46,920,690	55,049,406

Commitments and contingencies

Net assets:

Unrestricted	2,752,661	2,611,874	3,953,271
Temporarily restricted	1,452,632	1,480,842	1,606,773
Total net assets	4,205,293	4,092,716	5,560,044
Total liabilities	\$ 56,463,943	\$ 51,013,406	\$ 60,609,450

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

NORTH GEORGIA UNITED METHODIST FOUNDATION, INC.  
STATEMENTS OF ACTIVITIES  
FOR THE YEARS ENDED DECEMBER 31, 2009, 2008 AND 2007

	<u>2009</u>	<u>RESTATED 2008</u>	<u>RESTATED 2007</u>
Changes in unrestricted net assets:			
Revenues, gains and support:			
Contributions	\$ 23,059	\$ 18,268	\$ 3,870
Asset management fees	191,846	232,181	244,534
Consulting fees	41,674	9,167	10,000
Interest income from loan program	530,880	487,285	428,796
Investment return (loss)	<u>550,711</u>	<u>(818,296)</u>	<u>246,262</u>
Total unrestricted revenues and gains	1,338,170	(71,395)	933,462
Net assets released from restrictions	<u>213,212</u>	<u>204,213</u>	<u>167,352</u>
Total unrestricted revenues, gains and support	<u>1,551,382</u>	<u>132,818</u>	<u>1,100,814</u>
Expenses:			
Program services	1,179,096	1,224,569	965,234
General and administrative	<u>231,499</u>	<u>249,644</u>	<u>227,746</u>
Total expenses	<u>1,410,595</u>	<u>1,474,213</u>	<u>1,192,980</u>
Increase (decrease) in unrestricted net assets	<u>140,787</u>	<u>(1,341,395)</u>	<u>(92,166)</u>
Changes in temporarily restricted net assets:			
Contributions	78,819	108,516	7,593
Investment return	50,422	34,691	59,004
Change in value of split interest agreements	55,761	(64,925)	(2,913)
Net assets released from restrictions	<u>(213,212)</u>	<u>(204,213)</u>	<u>(167,352)</u>
Decrease in temporarily restricted net assets	<u>(28,210)</u>	<u>(125,931)</u>	<u>(103,668)</u>
Increase (decrease) in net assets	<u>\$ 112,577</u>	<u>\$ (1,467,326)</u>	<u>\$ (195,834)</u>
Net assets at beginning of year, as previously reported	\$ 4,092,718	\$ 5,560,044	\$ 4,453,633
Prior period adjustment, reclassification of donor advised funds	<u>-</u>	<u>-</u>	<u>1,302,245</u>
Net assets at end of year, as restated	4,092,718	5,560,044	5,755,878
Increase (decrease) in net assets	<u>112,577</u>	<u>(1,467,326)</u>	<u>(195,834)</u>
Net assets at end of year	<u>\$ 4,205,295</u>	<u>\$ 4,092,718</u>	<u>\$ 5,560,044</u>

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

NORTH GEORGIA UNITED METHODIST FOUNDATION, INC.  
STATEMENT OF FUNCTIONAL EXPENSES  
FOR THE YEAR ENDED DECEMBER 31, 2009

	Program Services	General and Administrative	Total
Salaries and wages	\$ 360,970	\$ 126,297	\$ 487,267
Payroll taxes and benefits	125,737	35,603	161,340
Total wages and benefits	486,707	161,900	648,607
Insurance	7,137	3,237	10,374
Interest expense	396,077	1,320	397,397
Office expenses	18,499	5,731	24,230
Rent	30,653	13,900	44,553
Professional fees	40,785	20,024	60,809
Telephone	3,268	1,482	4,750
Depreciation	12,175	5,315	17,490
Dues and subscriptions	40	1,219	1,259
Fees	6,293	3,724	10,017
Travel and meetings	1,650	8,850	10,500
Grants to beneficiaries	120,948	-	120,948
Loan loss provision	25,000	-	25,000
Marketing and publicity	29,023	-	29,023
Other expenses	841	4,797	5,638
	\$ 1,179,096	\$ 231,499	\$ 1,410,595

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

NORTH GEORGIA UNITED METHODIST FOUNDATION, INC.  
STATEMENT OF FUNCTIONAL EXPENSES - RESTATED  
FOR THE YEAR ENDED DECEMBER 31, 2008

	Program Services	General and Administrative	Total
Salaries and wages	\$ 343,176	\$ 142,150	\$ 485,326
Payroll taxes and benefits	116,160	39,300	155,460
Total wages and benefits	459,336	181,450	640,786
Insurance	6,966	3,159	10,125
Interest expense	427,187	6,533	433,720
Office expenses	12,674	5,453	18,127
Rent	29,758	13,495	43,253
Professional fees	25,399	15,180	40,579
Telephone	3,077	1,396	4,473
Depreciation	11,231	4,914	16,145
Dues and subscriptions	-	1,193	1,193
Fees	2,513	4,256	6,769
Travel and meetings	3,600	10,643	14,243
Grants to beneficiaries	119,530	-	119,530
Loan loss provision	110,163	-	110,163
Marketing and publicity	12,416	-	12,416
Other expenses	719	1,972	2,691
	\$ 1,224,569	\$ 249,644	\$ 1,474,213

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

NORTH GEORGIA UNITED METHODIST FOUNDATION, INC.  
STATEMENT OF FUNCTIONAL EXPENSES - RESTATED  
FOR THE YEAR ENDED DECEMBER 31, 2007

	Program Services	General and Administrative	Total
Salaries and wages	\$ 308,050	\$ 132,417	\$ 440,467
Payroll taxes and benefits	102,637	35,263	137,900
Total wages and benefits	<u>410,687</u>	<u>167,680</u>	<u>578,367</u>
Insurance	7,482	3,393	10,875
Interest expense	311,957	4,618	316,575
Office expenses	10,919	4,624	15,543
Rent	28,899	13,105	42,004
Professional fees	28,265	12,780	41,045
Telephone	3,284	1,489	4,773
Depreciation	10,861	4,731	15,592
Dues and subscriptions	-	1,578	1,578
Fees	9,152	1,607	10,759
Travel and meetings	6,016	10,940	16,956
Grants to beneficiaries	122,680	-	122,680
Loan write-offs	11,907	-	11,907
Other expenses	3,125	1,201	4,326
	<u>\$ 965,234</u>	<u>\$ 227,746</u>	<u>\$ 1,192,980</u>

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



NORTH GEORGIA UNITED METHODIST FOUNDATION, INC.  
STATEMENTS OF CASH FLOWS  
FOR THE YEARS ENDED DECEMBER 31, 2009, 2008 AND 2007

	2009	RESTATED 2008	RESTATED 2007
Cash flows from operating activities:			
Increase (decrease) in net assets	\$ 112,577	\$ (1,467,326)	\$ (195,834)
Adjustments to reconcile increase (decrease) in net assets to net cash used in operating activities:			
Depreciation	17,490	16,146	15,593
Provision for loan losses	25,000	110,164	
Change in value of split interest agreements	(55,761)	64,925	2,913
Unrealized (gain) loss on investments	(932,817)	766,718	(133,670)
Changes in assets and liabilities:			
(Increase) decrease in:			
Unconditional promise to give	100,000	-	100,000
Receivables	17,963	6,830	(6,734)
Prepaid expenses and other assets	(43)	(538)	(177)
Increase (decrease) in:			
Accounts payable	(870)	(19,679)	(5,926)
Accrued expenses	1,728	23,107	38,993
Total adjustments	(827,310)	967,673	10,992
Net cash used in operating activities	(714,733)	(499,653)	(184,842)
Cash flows from investing activities:			
Purchase of property and equipment	(15,313)	(3,141)	(8,750)
Purchase of investments	(449,789)	(5,873,298)	(3,421,712)
Proceeds from the sale of investments and donated stock	1,441,001	4,445,259	3,584,906
Maturities of certificates of deposit	225,000	-	
New mortgage loans made to churches	(3,959,322)	(4,065,815)	(3,799,266)
Repayments made on principal	911,822	1,720,890	340,047
Net cash used in investing activities	(1,846,601)	(3,776,105)	(3,304,775)

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

NORTH GEORGIA UNITED METHODIST FOUNDATION, INC.  
STATEMENTS OF CASH FLOWS - CONTINUED  
FOR THE YEARS ENDED DECEMBER 31, 2009 AND 2008

	2009	RESTATED 2008	RESTATED 2007
Cash flows from financing activities:			
Proceeds from unsecured promissory notes payable	8,925,667	4,658,190	2,786,951
Repayment of unsecured promissory notes payable	(7,023,824)	(860,433)	(475,146)
Loan participations received	464,061	1,250,000	1,048,539
Net cash provided by financing activities	2,365,904	5,047,757	3,360,344
Net increase (decrease) in cash and cash equivalents	(195,430)	771,999	(129,273)
Cash and cash equivalents at beginning of year	1,187,800	415,801	545,074
Cash and cash equivalents at end of year	\$ 992,370	\$ 1,187,800	\$ 415,801
Supplemental disclosure of cash flow information:			
Change in funds held for others:			
Investments-held for others	\$ 3,491,021	\$ (11,865,038)	\$ (767,694)
Charitable remainder trust and gift annuity benefits payable	272,894	177,154	(45,467)
Charitable remainder trust and gift annuity deferred benefits payable	(344,472)	790,182	(35,776)
Change in managed and endowed funds held for others	(3,363,682)	10,832,777	126,524
Change in value of split interest agreements	\$ 55,761	\$ (64,925)	\$ (722,413)
Interest paid on line of credit	\$ 1,320	\$ 4,132	\$ 4,618
Interest paid on development program certificates	401,949	427,187	311,957
Total interest paid	\$ 403,269	\$ 431,319	\$ 316,575

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

NORTH GEORGIA UNITED METHODIST FOUNDATION, INC.  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2009, 2008 AND 2007

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1. Nature of Organization and Significant Accounting Policies

Nature of Operations

The North Georgia United Methodist Foundation, Inc. (the Foundation) is a religious, not-for-profit corporation providing services for affiliates of the United Methodist Church, including the North Georgia Conference 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.

Effective July 1, 2009, the Financial Accounting Standards Board (FASB) established the Accounting Standards Codification (ASC) as the source for generally accepted accounting principles (GAAP) for companies and not-for-profit corporations to use in the preparation of financial statements. The guidance contained in the Codification supersedes all existing accounting and reporting standards. The Foundation adopted the Codification, as required and, as a result, references to accounting literature contained in these financial statement disclosures have been updated to reflect the new ASC structure.

Basis of Accounting and Presentation

The Foundation prepares its financial statements in accordance with 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.

NORTH GEORGIA UNITED METHODIST FOUNDATION, INC.  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2009, 2008 AND 2007

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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 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.

Donated Assets

Donated marketable securities and other noncash donations are recorded as contributions at their estimated fair value at the date of 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.

NORTH GEORGIA UNITED METHODIST FOUNDATION, INC.  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2009, 2008 AND 2007

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1. Nature of Organization and Significant Accounting Policies - Continued

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 Georgia Conference 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.

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.

NORTH GEORGIA UNITED METHODIST FOUNDATION, INC.  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2009, 2008 AND 2007

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1. Nature of Organization and Significant Accounting Policies - Continued

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.

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 in to 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.

NORTH GEORGIA UNITED METHODIST FOUNDATION, INC.  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2009, 2008 AND 2007

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1. Nature of Organization and Significant Accounting Policies – Continued

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.

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 Conference, 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, under the umbrella of the United Methodist Church, is exempt from income taxes as provided under Internal Revenue Code Section 501 (c)(3). Therefore, no provision for income taxes has been provided in the financial statements.

NORTH GEORGIA UNITED METHODIST FOUNDATION, INC.  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2009, 2008 AND 2007

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1. Nature of Organization and Significant Accounting Policies -- Continued

Subsequent Events

Management has reviewed, through May 28, 2010, (the date which these financial statements were available to be issued), events occurring subsequent to December 31, 2009 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 Conference, 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 annually 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 be 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



NORTH GEORGIA UNITED METHODIST FOUNDATION, INC.  
 NOTES TO FINANCIAL STATEMENTS  
 DECEMBER 31, 2009, 2008 AND 2007

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

Cash and cash equivalents, prepaid expenses and other assets and accounts payable are carried at amounts which approximate their fair value due to the short-term nature of these instruments. Investment securities and loans are carried at fair value. For a further discussion of the application of the fair value measurement by asset type see Note 13.

Reclassifications

Certain accounts in the prior-year financial statements have been reclassified for comparative purposes to conform with the presentation in the current-year financial statements.

2. Cash and Cash Equivalents

Cash and cash equivalents consist of the following:

	<u>2009</u>	<u>2008</u>	<u>2007</u>
Unrestricted cash	\$ 591,370	\$ 1,054,800	\$ 141,139
Board designated liquidity reserve	401,000	133,000	238,000
Restricted cash	<u>-</u>	<u>-</u>	<u>36,662</u>
Total cash and equivalents	<u>\$ 992,370</u>	<u>\$ 1,187,800</u>	<u>\$ 415,801</u>

At December 31, 2009, The Board designated liquidity reserve also included \$125,000 in Certificates of Deposits making the total liquidity reserve \$526,000. At December 31, 2008, the Board designated liquidity reserve also included \$350,000 in Certificates of Deposits making the total liquidity reserve \$483,000. At December 31, 2007, the Board designated liquidity reserve also included \$50,000 of unrestricted cash making the total liquidity reserve \$288,000.

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3. Unconditional Promises to Give

Unconditional promises to give consisted of pledges temporarily restricted to fund the expansion of the Foundation's stewardship program. There were no pledges outstanding at December 31, 2009. During the years ending December 31, 2008 and 2007, the Foundation had \$100,000 in unconditional promises receivable outstanding due in less than one year, respectively.

4. Investment Assets and Prior Period Adjustment

The Foundation established a Donor Advised Fund product in 2006. These Funds were originally recorded as Endowment Funds held for others even though the donor had relinquished ownership of the funds and only advises the Foundation on distributions. Accordingly, a prior period adjustment of \$1,302,245 was made to the Foundation's 2007 beginning net assets to properly recognize the contribution of these donor advised funds as temporarily restricted net assets.

The Foundation's investments in equity securities consist exclusively of investments in exchange-traded companies or mutual funds. Accordingly, the Foundation's direct investments in equity security investments are Level 1 investments. Investments in fixed income securities are in exchange traded mutual funds and are therefore Level 1 investments. Unsecured Promissory Notes Payable issued by the Foundation are considered Level 2 investments as market value can be derived from traded certificates of deposit with like maturity dates. Additionally, at December 31, 2009, 2008, and 2007 the Foundation held money market funds and cash comprising approximately 20%, 37%, and 36% of total investment assets. Money market funds are carried at their cost value, which approximates fair value and are therefore Level 1 investments.

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

	Hierarchy Level	2009	RESTATED 2008	RESTATED 2007
Money market funds	1	\$ 902,554	\$ 1,695,963	\$ 1,567,519
Foundation fixed income fund	1	66,729	67,660	75,059
Foundation equity fund	1	2,332,982	1,905,182	1,738,181
Unsecured promissory notes payable	2	1,120,000	800,000	900,000
United Methodist Church Foundation international equity fund	1	81,630	64,165	100,000
Equity securities	1	-	29,320	-
Total investments - Foundation		\$ 4,503,895	\$ 4,562,290	\$ 4,380,759

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4. Investment Assets and Prior Period Adjustment - Continued

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

	<u>2009</u>	<u>RESTATED 2008</u>	<u>RESTATED 2007</u>
Dividend and interest income	\$ 84,533	\$ 155,563	\$ 188,015
Realized loss on investments	(416,217)	(172,351)	(16,419)
Unrealized (loss) gain on investments	<u>932,817</u>	<u>(766,817)</u>	<u>133,670</u>
Total investments-Foundation	<u>\$ 601,133</u>	<u>\$ (783,605)</u>	<u>\$ 305,266</u>

Expenses related to investment revenues, including custodial fees and investment advisory fees, amounted to \$20,786, \$19,006 and \$18,338 in 2009, 2008 and 2007, respectively and have been netted against investment revenues in the accompanying statements of activities.

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:

	<u>2009</u>	<u>RESTATED 2008</u>	<u>RESTATED 2007</u>
Managed funds held for others	\$ 33,708,781	\$ 30,773,941	\$ 41,722,506
Endowment funds held for others	3,329,201	2,900,360	2,914,358
Gift annuities and charitable remainder trusts	<u>3,042,738</u>	<u>2,915,398</u>	<u>3,817,873</u>
Total investments held for others	<u>\$ 40,080,720</u>	<u>\$ 36,589,699</u>	<u>\$ 48,454,737</u>

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4. Investment Assets and Prior Period Adjustment - Continued

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

	Hierarchy Level	2009	RESTATED 2008	RESTATED 2007
Money market funds	1	\$ 1,518,023	\$ 1,934,813	\$ 2,828,089
Short-term bond fund	1	3,454,401	3,364,445	3,954,451
Foundation fixed income fund	1	10,631,136	11,385,141	13,799,601
Foundation equity fund	1	22,787,056	17,732,752	26,889,348
Unsecured promissory notes payable	2	915,000	810,000	-
Other investments	2	738,278	1,283,600	884,864
Stock	2	36,826	78,948	33,384
United Methodist Development Fund				65,000
Total investments held for others		<u>\$ 40,080,720</u>	<u>\$ 36,589,699</u>	<u>\$ 48,454,737</u>

5. Loans

The Foundation's loan portfolio consists of nineteen (19) 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 Conference 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, 2009, interest rates ranged from 5.80% to 7.00% depending on the loan.

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5. Loans - Continued

Major classifications of loans are as follows at December 31:

	<u>2009</u>	<u>2008</u>	<u>2007</u>
Term loans	\$ 10,367,556	\$ 8,385,769	\$ 4,407,894
Construction period loans	601,651	-	2,753,114
	<u>10,969,207</u>	<u>8,385,769</u>	<u>7,161,008</u>
Less: Allowance for loan losses	<u>(265,000)</u>	<u>(240,000)</u>	-
Loans, net	<u>\$ 10,704,207</u>	<u>\$ 8,145,769</u>	<u>\$ 7,161,008</u>

The allowance for loan losses is broken down into a general and specific allowance as follows:

	<u>2009</u>	<u>2008</u>
Specific allowance	\$ 163,000	\$ 163,000
General allowance	102,000	77,000
Total allowance for loan losses	<u>\$ 265,000</u>	<u>\$ 240,000</u>

There was no allowance for loan losses at December 31, 2007.

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. Non accrual 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, 2009, the Foundation has impaired loans of \$652,264 with a related allowance of \$163,000. There were no impaired or non-accrual loans at December 31, 2008 and 2007.

6. Property and Equipment

Property and equipment consist of the following at December 31:

	<u>2009</u>	<u>2008</u>	<u>2007</u>
Automobile	\$ 36,610	\$ 36,610	\$ 36,610
Computers and equipment	34,357	20,290	19,451
Furniture and fixtures	33,200	33,200	33,200
	<u>104,167</u>	<u>90,100</u>	<u>89,261</u>
Less: accumulated depreciation	<u>(80,324)</u>	<u>(64,080)</u>	<u>(50,236)</u>
Property and equipment, net	<u>\$ 23,843</u>	<u>\$ 26,020</u>	<u>\$ 39,025</u>

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7. Unsecured Promissory Notes Payable

The Foundation issues unsecured promissory notes payable in the form of Flexible Investment Certificates or Term Certificates to fund its lending program. These certificates are 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. The Offering Memorandum dated December 20, 2007 allowed \$12,000,000 in certificates to be issued and was fully subscribed. A second Offering Memorandum was issued dated July 14, 2009 which allows \$8,000,000 in certificates to be issued and had approximately \$1,000,000 in certificates subscribed at December 31, 2009. Promissory notes payable (certificates) consist of the following at December 31:

	<u>2009</u>	<u>2008</u>	<u>2007</u>
Flexible certificates	\$ 370,812	\$ 410,041	\$ 2,373,320
One year term certificates	2,165,865	3,693,337	302,637
Two year term certificates	501,665	216,647	200,000
Three year term certificates	6,346,995	4,763,531	3,605,574
Four year term certificates	<u>2,795,792</u>	<u>1,195,730</u>	<u>-</u>
	<u>\$ 12,181,129</u>	<u>\$ 10,279,286</u>	<u>\$ 6,481,531</u>

Flexible certificates are payable upon demand and these accounts paid interest at rates between 2.0% and 2.7% in 2009 and 2.8% and 4.4% in 2008 and 4.6% to 4.7% in 2007. Term notes have maturity dates ranging from one year to four years and paid interest in the range of 2.0% to 3.3% during 2009 and 3.2 % to 5.0% during 2008 and 4.8% to 5.2% in 2007 depending upon the term of the certificate and the amount deposited.

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

2010 (including all flexible certificates)	\$ 3,554,143
2011	1,109,923
2012	5,919,299
2013	<u>1,597,764</u>
	<u>\$ 12,181,129</u>

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8. 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 December 31, 2009, December 31, 2008 or December 31, 2007.

9. Temporary Restricted Net Assets

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

	<u>2009</u>	RESTATED <u>2008</u>	RESTATED <u>2007</u>
Donor advised funds	\$ 1,355,412	\$ 1,340,482	\$ 1,301,490
Cash restricted by donor for stewardship program expansion	-	-	100,000
Promises to give restricted by donor for stewardship program expansion	-	100,000	100,000
Split interest agreements	96,120	40,360	105,283
Program restriction for local church	<u>1,100</u>	<u>-</u>	<u>-</u>
Total temporarily restricted net assets	<u>\$ 1,452,632</u>	<u>\$ 1,480,842</u>	<u>\$ 1,606,773</u>

10. 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, 2009, 2008 and 2007 amounted to \$213,212, \$204,213 and \$167,352, respectively.

11. Pension Plan

The Foundation participates in a defined contribution pension plan which covers substantially all employees of the Foundation. Contributions are six percent (6.0%) of each employee's salary and twelve percent (12.0%) of each conference-appointed clergy's salary and totaled \$37,002, \$36,462 and \$33,168, respectively, for the years ended December 31, 2009, 2008 and 2007.

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12. Operating Lease Commitment

The Foundation leases its office space under a five-year noncancelable operating lease with an escalating lease payments provision. Rent expense for the years ended December 31, 2009, 2008 and 2007 was \$44,553, \$43,252 and \$42,004, respectively.

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

2010	\$ 45,890
2011	<u>11,557</u>
	<u>\$ 57,447</u>

13. Fair Value Measurements and Disclosures

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 - Valuation is based upon quoted prices for identical instruments traded in active markets.

Level 2 - Valuation is based upon quoted prices for similar instruments in active markets, quoted prices for identical or similar instruments in markets that are not active, and model-based valuation techniques for which all significant assumptions are observable in the market.

Level 3 - Valuation is generated from model-based techniques that use at least one significant assumption not observable in the market. These unobservable assumptions reflect estimates of assumptions that market participants would use in pricing the asset of liability. Valuation techniques include discounted cash flows and similar techniques.



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13. Fair Value Measurements and Disclosures - 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 securities are recorded at fair value on a recurring basis. Fair value measurement is based upon quoted prices, if available. The determination of the Fair Value Hierarchy for investment securities is included in Note 4 to these financial statements.

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. At December 31, 2009, the fair value of the fixed maturity private placement deposit certificates was \$12,125,157.

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

		As of December 31,			
		2009			
		Total	Level 1	Level 2	Level 3
Investment securities	\$	4,503,895	\$ 3,383,895	\$ 1,120,000	\$ -

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13. Fair Value Measurements and Disclosures - Continued

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

	As of December 31,			
	2009			
	Total	Level 1	Level 2	Level 3
Loans	\$ <u>489,264</u>	\$ <u>-</u>	\$ <u>489,264</u>	\$ <u>-</u>

Based on the current interest rates and maturity dates of the private placement certificates, the carrying value approximates fair value at December 31, 2009.

14. Related Party Transactions

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

- The Foundation has invested funds from the Conference, local UMC churches, and related individuals that had a fair value of \$40,080,720, \$36,589,699 and \$48,454,737 at December 31, 2009, 2008 and 2007, respectively. The Foundation's entire mortgage loan program (\$10,704,207, \$8,145,769 and \$7,161,008 in receivables, respectively) and the development fund certificate program (\$12,181,129, \$10,279,286 and \$6,481,531 in liabilities, respectively) are made up of related churches, Conference-related Foundations, and individuals.
- Several members of the Board of Trustees belong to Churches that have loans with the Foundation.
- Several members of the Board of Trustees have invested personally in the private placement certificates of deposit totaling \$753,000 at December 31, 2009.
- A member of the Board of Trustees has contributed to a donor advised fund with a market value at December 31, 2009 of \$1,183,000.
- Several members of the Board of Trustees have established endowments with a total market value at December 31, 2009 of \$115,600 managed by the Foundation.
- Several Board Members have gift annuities and unitrusts with a total market value at December 31, 2009 of \$ 347,000 managed by the Foundation.
- During 2009, the Foundation paid \$3,044 in legal fees to a firm where a member of the Board of Trustees practices law.

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15. 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 accounts are invested with the Trust Department of a financial institution, and together they manage over 270 accounts under this arrangement.

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, 2009, the market value of all of these accounts totaled \$ 40,080,720.

16. 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 one financial institution, and because the Foundation transfers money into its operating account to meet operating cash flow needs, at times, the account balance may 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 financial institution with which the Foundation has its bank accounts has elected to participate in the FDIC Transaction Guarantee Program. Under this program there is 100% coverage on noninterest bearing and interest bearing accounts as long as the accounts pay interest of less than 50 basis points. Coverage under this program is in addition to and separate from the coverage available under the FDIC's general deposit rules. At December 31, 2009 the Foundation's cash balances were fully covered by the FDIC Transaction Guarantee Program. At December 31, 2008 the Foundation's cash balances exceeded the FDIC-insured limit by approximately \$968,015. At December 31, 2007 cash balances exceeded the FDIC-insured limit by approximately \$1,545,000. 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 in the Conference which is in the northern half 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.

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17. Subsequent Events

The Foundation and the South Georgia United Methodist Foundation merged effective January 1, 2010 to form the Georgia United Methodist Foundation. The Boards of Trustees of both foundations approved the merger.

In March 2010, a loan of approximately \$650,000 to a local church was declared in default because the borrower failed to pay the indebtedness as required under the terms of the promissory note as well as other possible events of default. In 2008 and as reflected in Note 5, a specific reserve allowance of \$163,000 had already been set aside for this loan.

Prior to the issuance of these financial statements, the Foundation closed three additional mortgage loans. One for \$50,000 was closed on May 14, 2010 to a church and one for \$5,119,602 was closed on May 11, 2010 to a Methodist conference and retreat center. In addition, a construction loan to a church was converted to a term loan and a new loan to this church for \$225,000 was closed on February 1, 2010.