

REPORT OF
MISSOURI ANNUAL CONFERENCE OF THE
UNITED METHODIST CHURCH
DECEMBER 31, 2013 AND 2012



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INDEPENDENT AUDITORS' REPORT

To the Mission Council of
Missouri Annual Conference of the United Methodist Church

We have audited the accompanying financial statements of the Missouri Annual Conference of the United Methodist Church ("the Conference"), which comprise the statement of assets, liabilities and net assets – cash basis as of December 31, 2013, and the related statement of revenues, expenses and other changes in net assets – cash basis for the year 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 the modified cash basis of accounting as described in Note 1; 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.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with U.S. generally accepted auditing standards. Those standards require that we plan and perform the audit 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 assets, liabilities and net assets of the Missouri Annual Conference of the United Methodist Church as of December 31, 2013, and its revenues, expenses and changes in net assets for the year then ended, on the basis of accounting described in Note 1.

Basis of Accounting

As described in Note 1, the Conference prepares its financial statements on the modified cash basis of accounting, which is a comprehensive basis of accounting other than U.S. generally accepted accounting principles. Our opinion is not modified with respect to this matter.

Emphasis of Matter

As further explained in Note 1 to the financial statements, in 2013, the Conference changed the presentation of its financial statements. Our opinion is not modified with respect to this matter.

Other Matter

Our audit was made for the purpose of forming an opinion on the financial statements as a whole. The supplementary schedule of the Missouri Area Episcopal Office Fund is presented for the purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with U.S. generally accepted auditing standards. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole. We previously reported on the information for 2012, and in our report dated May 31, 2013, we stated the information was fairly stated in all material respects in relation to the 2012 financial statements as a whole.

Williams - Keppner LLC
May 31, 2014

MISSOURI ANNUAL CONFERENCE OF THE UNITED METHODIST CHURCH

STATEMENT OF ASSETS, LIABILITIES AND NET ASSETS - CASH BASIS
DECEMBER 31, 2013

ASSETS

Cash	\$ 11,069,225
Cash - camp accounts	205,128
Investments:	
Held at Missouri United Methodist Foundation	140,746
Certificates of deposit	120,000
Total investments	<u>260,746</u>
Total assets	<u>\$ 11,535,099</u>

LIABILITIES AND NET ASSETS

LIABILITIES

Payables for support and expenses	\$ 873,125
Cash held for the Board of Pensions	829,762
Total liabilities	<u>1,702,887</u>

NET ASSETS

Total liabilities and net assets	<u>\$ 11,535,099</u>
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MISSOURI ANNUAL CONFERENCE OF THE UNITED METHODIST CHURCH

STATEMENT OF REVENUES, EXPENSES AND OTHER CHANGES IN NET ASSETS - CASH BASIS YEAR ENDED DECEMBER 31, 2013

Revenues:

Apportionments	\$ 13,106,686
Donations	468,071
Distribution of trust assets from the General Board of Pensions	1,048,533
Event registrations	1,073,612
Grant revenue	306,990
Camp revenue	205,000
Rental income	5,100
Sales of property	557,795
Interest revenue	23,257
Other revenue	265,759
Total revenues	<u>17,060,803</u>

Expenses:

Apportionment disbursements	3,158,029
Benevolent disbursements	1,724,577
Grant disbursements	1,626,949
Scholarship disbursements	14,250
Salaries and wages	2,279,557
Housing	242,319
Employee withholding	20,752
Employer payroll tax expense	80,910
Employer benefit expense	683,735
Retiree benefits expense	291,734
Non-employee benefits expense	4,700
Worker's compensation insurance	15,618
Continuing education	12,950
Moving expenses	2,819
Professional travel expenses	326,086
Contract labor	1,229,281
Equitable salary grants	99,004
Registration disbursements	515,211
Meeting expenses	655,291
Administrative expenses:	
Office supplies	160,156
Postage and shipping	28,265
Advertising	55,302
Printing	147,108
Dues and subscriptions	7,354
IT services	124,827
Contractual	13,348

The notes to the financial statements are an integral part of this statement

MISSOURI ANNUAL CONFERENCE OF THE UNITED METHODIST CHURCH

STATEMENT OF REVENUES, EXPENSES AND OTHER CHANGES
IN NET ASSETS - CASH BASIS
YEAR ENDED DECEMBER 31, 2013

	(Continued)
Equipment rental	74,111
Furniture and equipment purchases	53,624
Professional fees	285,565
Building occupancy expenses	274,765
Office property capital additions	422,897
Mortgage note principal and interest	90,541
Miscellaneous	245,845
Total expenses	<u>14,967,480</u>
Excess of revenues over expenses	2,093,323
Transfers among funds:	
Transfers in	1,493,653
Transfers out	<u>(1,493,653)</u>
Excess of revenues over expenses and other changes	2,093,323
Net assets, beginning of the year	<u>7,738,889</u>
Net assets, end of the year	<u>\$ 9,832,212</u>
Net assets, end of the year consists of:	
Missouri Area Episcopal Office Fund	\$ 181,735
All other net assets	<u>9,650,477</u>
	<u>\$ 9,832,212</u>

The notes to the financial statements are an integral part of this statement

**MISSOURI ANNUAL CONFERENCE OF THE
UNITED METHODIST CHURCH**

NOTES TO FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Activities: The Missouri Annual Conference of the United Methodist Church (“the Conference”) was developed to maintain and administer a comprehensive and coordinated plan of fiscal and administrative policies, procedures, and management services for the Annual Conference. According to the *Book of Discipline* of the United Methodist Church, the Conference is required to include specific items of the General Church in its budget. Other budget items may originate from within the Conference. When the total budget is adopted by the Conference, it is apportioned to the local churches on a decimal basis and funds are remitted to the Conference Treasurer for the purpose of distribution.

Included in the cash amount in the accompanying Statement of Assets, Liabilities and Net Assets – Cash Basis is cash of \$829,762 of the Board of Pensions of the Missouri Annual Conference of the United Methodist Church (the Board of Pensions) with an equal presented as a liability to the Board of Pensions. The Board of Pensions is a not-for-profit, administrative agency of the religious denomination known as The United Methodist Church. The Board of Pensions is a plan sponsor, along with other state conferences’ boards of pensions, of various pension, disability, death and health benefit plans, programs and funds of the General Board of Pension and Health Benefits of The United Methodist Church (General Board).

Basis of Accounting: Except for the modifications explained below, the Conference prepares its financial statements on the basis of cash receipts and disbursements, whereby revenue and the related assets are recognized when received rather than when earned, and expenses are recognized when paid rather than when the obligation is incurred. Therefore, assets such as receivables and loans to other organizations are not reported as assets, and liabilities such as outstanding balances due to vendors and other creditors are not reported as liabilities in the accompanying financial statements. The cash basis of accounting is a comprehensive basis of accounting other than generally accepted accounting principles. The modifications to the pure cash basis of accounting are:

- 1) Investments are reported at fair value,
- 2) cash received for several days in the first part of January every year are included in receipts for the prior fiscal year to the extent they are for apportionments, other contributions and other payments from churches that are for the prior fiscal year,
- 3) a liability is presented for support distributions and expenses that pertain to the fiscal year but for which the checks to pay them were not written and dated until after the end of the fiscal year. In prior fiscal years, similar distributions and expenses for the fiscal year typically were recorded by checks written soon after the end of the fiscal year but dated within the fiscal year. To present expenses in a manner consistent with prior years, support distributions and expenses that were affected by this are included in these financial statements and reported as a liability, and
- 4) a liability is presented for the amount of cash held for the Board of Pensions, as explained above.

Fund Accounting: To help ensure limitations and designations placed on the use of revenue collected by the Conference are adhered to, the accounts of the Conference are maintained in accordance with the principles of fund accounting. This is the procedure by which revenues collected and expenditures from those revenues are classified for accounting purposes into funds established according to their nature and purpose. Stipulations on use of resources that are the result of Conference leadership decisions rather than donor stipulations are typically referred to as “board-designated”. The Conference prepares an annual “Treasurer’s Report” that displays for each fund the beginning of year fund balance; total revenue receipts, expenditure disbursements and interfund transfers; and ending fund balance.

Change in Presentation of the Financial Statements: For 2013, the Conference changed the presentation of these annual financial statements to classify revenues, expenses and transfers in total for all funds according to the nature of the revenues and expenses rather than using a presentation that was essentially equivalent to the annual Treasurer's Report. Also, prior to 2013, the financial statements did not include the cash account of the Board of Pensions.

Classification of Net Assets: Because the Conference does not present its financial statements in accordance with generally accepted accounting principles, it does not report net assets and changes in net assets according to three classes of net assets: unrestricted, temporarily restricted and permanently restricted. Under generally accepted accounting principles, the classification of net assets into these categories is based on the existence or absence of donor-imposed restrictions, stipulations that specify a use for a contributed asset that is more specific than broad limits resulting from an organization's basic mission and environment in which it operates. Temporary restrictions are donor-imposed stipulations that either expire by passage of time or can be fulfilled and removed by actions of the organization pursuant to those stipulations. Permanent restrictions are donor-imposed stipulations that neither expire by passage of time nor can be fulfilled or otherwise removed by actions of the organization. Receipts from local churches are accompanied by documentation that specifies any restrictions the churches have placed on use of the funds remitted. Otherwise, the remittances will be used in accordance with the apportionment decisions of the Conference.

Related Party Transactions: Substantially all cash receipts of the Conference come from organizations affiliated with the United Methodist Church. The various funds are used to separately account for support received for and support provided to the various missions, ministries, organizations, boards, commissions, committees, councils and teams that are affiliated with or are under the organizational structure of the Missouri Annual Conference. Legally separate organizations for which the Conference has control are not consolidated in these financial statements as might be required if the financial statements were prepared in accordance with generally accepted accounting policies.

Income Taxes: The Conference is exempt from federal income taxes under Internal Revenue Code section 501(c)(3). As a religious organization, the Conference is exempt from filing information returns with the Internal Revenue Service.

Cash: The Conference considers all highly liquid debt instruments purchased with an original maturity of one year or less to be cash equivalents. In addition, the Conference maintains checking accounts at financial institutions which are insured by the Federal Deposit Insurance Corporation (FDIC). Depending upon the level of insurance in effect, these account balances might occasionally exceed the FDIC insurance limit.

Investments: Investments held by the Conference as of December 31, 2013 consist of certificates of deposit with financial institutions and long-term investments. The long-term investments are held and managed by the Missouri United Methodist Foundation, Incorporated ("the Foundation. The Foundation serves as the investment manager for United Methodist churches across the State of Missouri. This pooled investment fund has underlying assets of cash and various mutual funds which are allocated to stock, bond, and real estate funds. The pooled investment fund reports underlying equity securities with readily determinable fair values and all investments in debt securities at fair value. The Conference reports investments at its share of the pooled investment fund, with realized and unrealized gains and losses included in the statement of receipts, expenditures and changes in fund balances – cash basis.

Subsequent Events: Events that have occurred subsequent to December 31, 2013 have been evaluated through May 31, 2014, which represents the date the financial statements were approved by management and therefore available to be issued.

2. NOTES PAYABLE

In 2006, the Conference obtained bank financing of \$1,300,000 for its administration office land and building, which serves as collateral for the note. The note was refinanced in June 2011, which decreased the rate of interest from 6.5% to 5.5% and, as a result of leaving the monthly payments of principal and interest unchanged at \$9,762, moved the payoff date from February 2026 to October 2024. As of December 31, 2013, the remaining principal balance on the note was \$946,631. Because the Conference prepares its financial statements on the basis of cash receipts and disbursements, the monthly payments are recorded as expenses and the outstanding principal balance is not recorded as a liability in the accompanying financial statements.

On May 23, 2014, the Conference refinanced the note payable and obtained additional funding under a new note for \$1,700,000 as part of its financing plan for an addition to its administration office. The new note calls for 59 monthly principal and interest payments of \$12,367 at an interest rate of 3.7%. The additional proceeds received plus other existing Conference cash funds will be used to finance construction of the new addition. As of the date of this report, the Conference has entered into a construction contract. The total contract amount is under negotiation and is expected to be approximately \$1,400,000.

3. RETIREMENT PLANS

Employees of the Conference may be eligible for participation in retirement plans administered by the General Board of Pensions of the United Methodist Church. The Conference funds a defined benefit plan for Missouri clergy who were eligible on or before 1982, as well as separate defined contribution 403(b) plans for Missouri clergy and for lay employees of the Conference.

The actuarially determined required contributions from the Conference to the defined benefit plan were \$0 for both 2013 and 2012.

Under the 403(b) plans the Conference makes contributions on behalf of individual Missouri clergy and eligible Conference lay employees. Contributions generally are based on 12% of compensation, with certain limitations prior to 2007 which differ for lay persons and clergy. Effective in 2007, the plan for clergy was modified, which resulted in increased contributions for clergy. Total contributions made on behalf of participants in the 403(b) plans were \$261,370 and \$323,051 in 2013 and 2012, respectively.

4. DISTRIBUTION FROM THE GENERAL BOARD OF PENSIONS

During 2013, the Conference received a distribution in the amount of \$1,048,533 from the invested assets of a trust for which the General Board of Pensions was serving as trustee. The Conference was not aware that it had a beneficiary interest in the trust, but in 2013 learned:

- the original will that established the trust dates back to 1922 and the trust assets have been held at the General Board of Pensions since then,
- the former Missouri East Conference was named as a beneficiary of the trust and was aware of the interest,
- due to an error at the General Board of Pensions, no distributions were made after 1983 to the former Missouri East Conference or to the Missouri Conference after the East and West Conferences were merged,
- an audit of the General Board of Pensions in 2012 identified that that the trust assets were distributable to the Missouri Conference,
- the amount received in 2013 was for distributable income of the trust accumulated since the last distribution in 1983, and
- available trust income will be distributed to the Conference annually under the terms of the trust.

**MISSOURI ANNUAL CONFERENCE OF THE UNITED METHODIST CHURCH
MISSOURI AREA EPISCOPAL OFFICE FUND**

**SCHEDULES OF CASH RECEIPTS AND CASH DISBURSEMENTS
YEARS ENDED DECEMBER 31, 2013 and 2012**

CASH RECEIPTS	2013	2012
Apportionments	\$ 78,190	\$ 78,412
Allocation from Episcopal Fund	78,600	77,300
Total cash receipts	156,790	155,712
 CASH DISBURSEMENTS		
Administrative salary	61,750	52,606
Professional fees	13,314	31,776
Audit	550	500
Employee benefits	6,891	5,496
Staff travel	14,346	4,090
Telephone	3,828	2,312
Printing and copying	1,369	192
Office supplies	780	944
Payroll taxes	1,506	1,004
Equipment rental and maintenance	210	713
Information technology	4,197	-
Postage	1,124	1,812
Charity	7,414	23,175
Miscellaneous	11,515	8,661
Total cash disbursements	128,794	133,281
 TRANSFERS FROM (TO) OTHER CONFERENCE FUNDS		
Rent and occupancy	(24,750)	(28,396)
Total (to) other Conference funds	(24,750)	(28,396)
Excess (deficiency) of cash receipts over cash disbursements	3,246	(5,965)
Net assets - cash and cash equivalents, beginning of year	178,489	184,454
Net assets - cash and cash equivalents, end of year	\$ 181,735	\$ 178,489