

**Southeastern Jurisdiction of the
United Methodist Church and Agency**

Consolidated Financial Report
December 31, 2014

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RSM US LLP

Independent Auditor's Report

To the Committee on Finance and Administration of the
Southeastern Jurisdiction of the United Methodist Church and Agency
Richmond, Virginia

Report on the Financial Statements

We have audited the accompanying consolidated financial statements of the Southeastern Jurisdiction of the United Methodist Church and Agency (the Organization), which comprise the consolidated statements of financial position as of December 31, 2014 and 2013, and the related consolidated statements of activities and cash flows for the years then ended, and the related notes to the consolidated financial statements (collectively, 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 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 auditors' 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 Southeastern Jurisdiction of the United Methodist Church and Agency as of December 31, 2014 and 2013, 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.

RSM US LLP

Charlotte, North Carolina
July 7, 2016

Southeastern Jurisdiction of the United Methodist Church and Agency

**Consolidated Statements of Financial Position
December 31, 2014 and 2013**

	2014	2013
Assets		
Cash and cash equivalents	\$ 1,100,488	\$ 1,026,189
Cash and cash equivalents restricted for Heritage Center Endowment	63,540	346,117
Assets held in perpetual trust (the Renfro Trust)	747,503	741,363
Investments	367,077	84,500
Annual conference receivables	236,845	206,078
Related party receivables	29,248	27,305
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Total assets	\$ 2,544,701	\$ 2,431,552
Liabilities and Net Assets		
Liabilities		
Accounts payable	\$ 3,135	\$ 6,102
Related party liabilities	46,874	47,528
	<hr/>	<hr/>
Total liabilities	50,009	53,630
Net assets:		
Unrestricted	1,316,572	1,205,942
Temporarily restricted	647,503	641,363
Permanently restricted	530,617	530,617
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Total net assets	2,494,692	2,377,922
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Total liabilities and net assets	\$ 2,544,701	\$ 2,431,552

See notes to consolidated financial statements.

Southeastern Jurisdiction of the United Methodist Church and Agency

**Consolidated Statement of Activities
Year Ended December 31, 2014**

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Revenues, gains and other support:				
Annual conference apportionment contributions	\$ 1,092,940	\$ -	\$ -	\$ 1,092,940
Investment income, net	4,650	8,735	-	13,385
Other revenues	9,872	2,050	-	11,922
Net assets released from restrictions	10,785	(10,785)	-	-
Total revenues, gains and other support	1,118,247	-	-	1,118,247
Expenses:				
Program services	813,805	-	-	813,805
General administration	193,812	-	-	193,812
Total expenses	1,007,617	-	-	1,007,617
Other change:				
Change in value of perpetual trust	-	6,140	-	6,140
Change in net assets	110,630	6,140	-	116,770
Net assets, beginning of year	1,205,942	641,363	530,617	2,377,922
Net assets, end of year	\$ 1,316,572	\$ 647,503	\$ 530,617	\$ 2,494,692

See notes to consolidated financial statements.

Southeastern Jurisdiction of the United Methodist Church and Agency

**Consolidated Statement of Activities
Year Ended December 31, 2013**

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Revenues, gains and other support:				
Annual conference apportionment contributions	\$ 1,246,890	\$ -	\$ -	\$ 1,246,890
Interest income	10,521	10,006	-	20,527
Other revenues	10,287	-	-	10,287
Net assets released from restrictions	13,207	(13,207)	-	-
Total revenues, gains and other support	1,280,905	(3,201)	-	1,277,704
Expenses:				
Program services	638,399	-	-	638,399
General administration	107,663	-	-	107,663
Total expenses	746,062	-	-	746,062
Other change:				
Change in value of perpetual trust	-	85,302	-	85,302
Change in net assets	534,843	82,101	-	616,944
Net assets, beginning of year	671,099	559,262	530,617	1,760,978
Net assets, end of year	<u>\$ 1,205,942</u>	<u>\$ 641,363</u>	<u>\$ 530,617</u>	<u>\$ 2,377,922</u>

See notes to consolidated financial statements.

Southeastern Jurisdiction of the United Methodist Church and Agency

**Consolidated Statements of Cash Flows
Years Ended December 31, 2014 and 2013**

	2014	2013
Cash flows from operating activities:		
Change in net assets	\$ 116,770	\$ 616,944
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Net realized gains on investments	(13,235)	-
Net unrealized loss on investments	12,583	-
Change in value of perpetual trust	(6,140)	(85,302)
Changes in operating assets and liabilities:		
Annual conference receivables	(30,767)	260,894
Related party receivables	(1,943)	(3,916)
Accounts payable	(2,967)	(560,692)
Related party liabilities	(654)	47,528
Net cash provided by operating activities	73,647	275,456
Cash flows provided by investing activities:		
Purchase of investments	(329,848)	-
Proceeds from sale of investments	47,923	345,816
Net cash (used in) provided by investing activities	(281,925)	345,816
Cash flows used in financing activities:		
Decrease (increase) in cash and cash equivalents restricted for Heritage Center endowment	282,577	(346,117)
Net increase in cash and cash equivalents	74,299	275,155
Cash and cash equivalents:		
Beginning of year	1,026,189	751,034
End of year	\$ 1,100,488	\$ 1,026,189

See notes to consolidated financial statements.

Southeastern Jurisdiction of the United Methodist Church and Agency

Notes to the Consolidated Financial Statements

Note 1. Nature of Organization

Nature of organization: The Southeastern Jurisdiction of the United Methodist Church (the Jurisdiction) functions as an agent of the United Methodist Church within the Southeastern Jurisdiction of the United States.

The Jurisdiction receives apportionment contributions remitted by annual conference treasurers and allocates the contributions received to affiliated committees and other associated groups and boards. The allocation of funds to these related entities is made based upon a quadrennial jurisdictional conference expense budget. The quadrennial budget also provides the Jurisdiction with certain funds for administrative and conference expenses.

The Heritage Center's mission is to preserve and keep alive the stories of the remarkable persons, places and events that make up the history of the United Methodists in the states that comprise the Southeastern Jurisdiction.

Principles of consolidation: Accounting principles generally accepted in the United States of America (GAAP) require the Jurisdiction to consolidate entities in which it has control and an economic interest, when that control is evidenced through majority ownership or voting interests.

The consolidated financial statements include the accounts of the Jurisdiction and the Heritage Center, collectively referred to as the Organization. All significant intercompany items and transactions have been eliminated in consolidation.

A summary of the significant accounting policies follows:

Accrual basis: The financial statements are prepared on the accrual basis in accordance with GAAP.

Basis of presentation: Net assets and revenues, expenses, gains and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, net assets and changes therein are classified and reported as follows:

Unrestricted: Unrestricted funds account for all resources over which the Organization has discretionary control.

Temporarily restricted: Temporarily restricted funds represent resources whose use is limited by donors for the purpose and/or time in which they may be expended. Eventually, temporarily restricted funds are reclassified to unrestricted, as their time and purpose requirements are met. Temporarily restricted resources for which donor-imposed restrictions have been met within the same fiscal year as received are reported as unrestricted contributions.

Permanently restricted: Permanently restricted funds are restricted as to the expendability of principal and may or may not be restricted as to the use of investment return. Investment income earned and gains or losses on sales of investments on endowment and similar funds are accounted for in temporarily restricted or permanently restricted funds depending upon the respective donor restrictions.

Revenues are reported as increases in unrestricted net assets unless use of the related assets is limited by donor-imposed restrictions. Expenses are reported as decreases in unrestricted net assets. Gains and losses on investments and other assets or liabilities are reported as increases or decreases in unrestricted net assets unless their use is restricted by explicit donor stipulation or by law. Expirations of temporary restrictions on net assets are reported as reclassifications between the applicable classes of net assets.

Southeastern Jurisdiction of the United Methodist Church and Agency

Notes to the Consolidated Financial Statements

Note 1. Nature of Organization (Continued)

Contributions, including unconditional promises, are recognized as revenues in the period made. Conditional promises are not recognized until they become unconditional; that is, when the conditions on which they depend are substantially met. Contributions of assets other than cash are recorded at their estimated fair value.

Revenue and support: The principal source of revenue and support is apportionments received from the underlying church conferences. Apportionments are the approved levels of support allocated to church conferences. Apportionments expire at the end of each calendar year. Although the church discipline requires the church conferences to satisfy their apportionment allocation, the conferences do not have any financial commitment for the underpayment of their apportionments.

Accounts receivable: As a significant dollar amount of the apportionments are received close to year end, the church conferences are provided a cut-off date subsequent to year end in order for churches to fulfill their annual apportionments. Thus, accounts receivable are recognized at the dollar amount of apportionments received by the cut-off date. As such, no allowance for doubtful accounts is necessary.

Contributions: Contributions are recorded when cash or property is received, when payments are made on behalf of the Organization or when indebtedness is forgiven. Contributed property is recorded at appraised or market value at the date of the contribution. All contributions are considered unrestricted unless specifically restricted by the donor. All donor-restricted contributions are reported as an increase in temporarily or permanently restricted net assets, depending on the nature of the restriction. When a restriction has been fulfilled (that is, when a stipulated time restriction ends or purpose restriction is accomplished), temporarily restricted net assets are reclassified to unrestricted net assets and reported in the consolidated statement of activities as net assets released from restrictions.

Donated services: No amounts have been reflected in the accompanying consolidated financial statements for donated services. The Organization generally pays for services requiring specific expertise; however, many individuals volunteer their time and perform a variety of tasks that assist the Organization with specific assistance programs, campaign solicitations and various committee assignments.

Cash and cash equivalents: For purposes of the consolidated statement of cash flows, the Organization considers all cash accounts that are not subject to withdrawal restrictions or penalties, and all highly liquid instruments with an initial maturity of three months or less to be cash equivalents. At times, cash balances may exceed federally insured amounts. The Organization has not experienced any losses on such accounts and management does not believe the Organization is exposed to any significant credit risk on cash and cash equivalents.

Cash and cash equivalents restricted for endowment: Endowment monies are being held in various cash or cash equivalent accounts by the Organization during 2014 and 2013, and by the General Council on Finance and Administration of The United Methodist Church (GCFA) under an investment agreement during 2013.

Assets held in perpetual trust: The Jurisdiction has been named as trustee for a perpetual trust, the Cora Renfro Perpetual Memorial Fund (the Renfro Trust), for which it is the sole beneficiary for earnings from trust assets. Assets held in this trust are currently held in pooled investments with the Virginia United Methodist Foundation (VUMF) under an investment agreement. During 2013, the assets were held in cash by the Organization. The amounts shown as assets held in perpetual trust in the statement of financial position are based on the fair value of such assets held in trust.

Southeastern Jurisdiction of the United Methodist Church and Agency

Notes to the Consolidated Financial Statements

Note 1. Nature of Organization (Continued)

Investments: Purchased investments are initially recorded at cost. Investments received by gift are initially recorded at fair value at the date of donation. The Organization's investments are assets invested under investment agreements with the United Methodist Development Fund (UMDF), the United Methodist Church Foundation (UMCF) and Pax World Mutual Funds (Pax World), wherein the investments are either directly invested or pooled into larger investment funds of these organizations. The Organization's pooled investments are valued at fair value based upon the net asset value of each fund as provided by the investment holder or other observable information. The Organization's direct investments, which consist of mutual funds, are valued at fair value.

Related party payables: The Organization is an agent for various affiliates and constituents. Amounts received and not yet expended on behalf of beneficiaries have been reported as a liability for amounts held for others in accordance with Accounting Standards Codification (ASC) 958-605-30, Not-for-Profit Entities.

Use of estimates: The preparation of financial statements in accordance with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from these estimates.

Income taxes: The Organization is exempt from federal incomes taxes under the Internal Revenue Code Section 501(c)(3) and the statutes of the state of North Carolina. Accordingly, no provision for income taxes is provided in the consolidated financial statements.

Management evaluated the Organization's tax positions and concluded that the Organization had taken no uncertain tax positions that require adjustment to the financial statements to comply with the provisions of the Income Taxes Topic of the FASB Accounting Standards Codification.

Subsequent events: The Organization has evaluated its subsequent events (events occurring after December 31, 2014) through July 7, 2016, the date on which the consolidated financial statements were available to be issued.

Recent accounting pronouncements: In May 2014, the Financial Accounting Standards Board (FASB) issued Accounting Standard Update (ASU) 2014-09, *Revenue from Contracts with Customers (Topic 606)*, requiring an entity to recognize the amount of revenue to which it expects to be entitled for the transfer of promised goods or services to customers. The updated standard will replace most existing revenue recognition guidance in U.S. GAAP when it becomes effective and permits the use of either a full retrospective or retrospective with cumulative effect transition method. In August 2015, the FASB issued ASU 2015-14 which defers the effective date of ASU 2014-09 one year making it effective for annual reporting periods beginning after December 15, 2018. The Organization has not yet selected a transition method and is currently evaluating the effect that the standard will have on the consolidated financial statements.

Southeastern Jurisdiction of the United Methodist Church and Agency

Notes to the Consolidated Financial Statements

Note 1. Nature of Organization (Continued)

In February 2016, the FASB issued ASU 2016-02, *Leases* (Topic 842). The guidance in this ASU supersedes the leasing guidance in Topic 840, *Leases*. Under the new guidance, lessees are required to recognize lease assets and lease liabilities on the balance sheet for all leases with terms longer than 12 months. Leases will be classified as either finance or operating, with classification affecting the pattern of expense recognition in the income statement. The new standard is effective for fiscal years beginning after December 15, 2019, including interim periods within those fiscal years. A modified retrospective transition approach is required for lessees for capital and operating leases existing at, or entered into after, the beginning of the earliest comparative period presented in the financial statements, with certain practical expedients available. The Organization is currently evaluating the impact of the pending adoption of the new standard on the consolidated financial statements.

Accounting pronouncement adopted: In May 2015, the FASB issued ASU No. 2015-07, *Fair Value Measurement (Topic 820): Disclosures for Investments in Certain Entities That Calculate Net Asset Value per Share (or Its Equivalent)*. The amendments in this Update remove the requirement to categorize within the fair value hierarchy all investments for which fair value is measured using the net asset value per share practical expedient. However, sufficient information must be provided to permit reconciliation of the fair value of assets categorized within the fair value hierarchy to the amounts presented in the statement of financial position. The amendments also remove the requirement to make certain disclosures for all investments that are eligible to be measured at fair value using the net asset value per share practical expedient. The amendments in this Update are effective for fiscal years beginning after December 15, 2016. Early adoption is permitted. Upon adoption, the amendments shall be applied retrospectively to all periods presented. The Organization adopted the Update for the 2014 fiscal year and the Update was retroactively applied to December 31, 2013. Prior year disclosures in Note 3 have been revised to reflect the retrospective application, as applicable. The impact of adopting this Update is reflected in the financial statements.

Note 2. Investments

The Organization has agreements with UMDF, UMCF and Pax World to act as agents and investment managers of the Organization's investments. These investments are directly invested by these institutions into larger investment funds.

The Organization's investments at December 31, 2014 and 2013, are comprised of pooled and direct investments totaling \$367,077 and \$84,500, respectively.

The Organization's investment securities are exposed to various risks such as interest rate, market and credit risks. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in the values of investment securities will occur in the near term and that such changes could materially affect the amounts reported in the statement of financial position.

Total investment return is comprised of the following for the years ended December 31, 2014 and 2013:

	2014	2013
Interest income	\$ 12,733	\$ 20,527
Net realized gains	13,235	-
Net unrealized loss	(12,583)	-
Investment income	<u>\$ 13,385</u>	<u>\$ 20,527</u>

Southeastern Jurisdiction of the United Methodist Church and Agency

Notes to the Consolidated Financial Statements

Note 3. Fair Value Measurements

Fair value measurements apply to all financial assets and liabilities that are being measured and reported on a fair value basis. GAAP establishes a framework for measuring the fair value of assets and liabilities and requires fair value measurements be classified and disclosed in one of the following three categories:

Level 1: Financial instruments with unadjusted, quoted prices listed on active market exchanges for identical assets or liabilities that the reporting entity has the ability to access at the measurement date.

Level 2: Financial instruments determined using prices for recently traded financial instruments with similar underlying terms as well as directly or indirectly observable inputs, such as interest rates and yield curves that are observable at commonly quoted intervals. If the asset or liability has a specified contractual term, the Level 2 input must be observable for substantially the full term of the asset or liability.

Level 3: Financial instruments that are not actively traded on a market exchange and require using significant unobservable inputs for determining fair value. The inputs into the determination of fair value require significant judgment or estimation.

The framework for measuring fair value provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The asset's or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

There have been no changes in the methodologies used at December 31, 2014 or 2013.

The preceding methods described may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, although the Organization believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

Following is a description of the valuation methodology used for financial assets measured at fair value:

Investments: Investments held by UMDF consist of loans made to individuals and church institutions to finance building programs and other capital investments related to the United Methodist Church. Such investments at UMDF are valued at cost, which approximates fair value based on the fixed interest rates on the investments approximating market rates. Investments held at UMDF are considered Level 2 investments.

Investments held by UMCF consist of pooled investments held in a balanced fund. Such investments at UMCF are valued at fair value based upon the net asset value of each fund as provided by UMCF. This investment seeks to provide investment income while growing principal over the long term by investing in a balanced portfolio of both stocks and bonds. Investments held in this account are redeemable on a daily basis.

Investments held by Pax World consist of mutual funds. These funds are valued at the daily closing price as reported by the fund. The mutual funds held by the Organization are deemed to be actively traded. Investments held at Pax World are considered Level 1 investments.

Southeastern Jurisdiction of the United Methodist Church and Agency

Notes to the Consolidated Financial Statements

Note 3. Fair Value Measurements (Continued)

Assets held in perpetual trust: Assets held in perpetual trust are classified as Level 3 assets due to the perpetual nature of the trust and the inability to liquidate or redeem the assets for the benefit of the Organization.

Level 1 instruments carried at fair value, and Level 2 and Level 3 instruments carried at estimated fair value, are comprised of the following at December 31, 2014 and 2013:

	2014			
	Fair Value Measurements at Reporting Date Using			
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total
Financial assets:				
Direct investments:				
UMDF Development Fund	\$ -	\$ 37,000	\$ -	\$ 37,000
Mutual fund	24,939	-	-	24,939
Pooled investments:				
Balanced fund (a)	-	-	-	305,138
	<u>\$ 24,939</u>	<u>\$ 37,000</u>	<u>\$ -</u>	<u>\$ 367,077</u>
Assets held in perpetual trust	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 747,503</u>	<u>\$ 747,503</u>

	2013			
	Fair Value Measurements at Reporting Date Using			
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total
Financial assets:				
Investments:				
UMDF Development Fund	\$ -	\$ 84,500	\$ -	\$ 84,500
Assets held in perpetual trust	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 741,363</u>	<u>\$ 741,363</u>

(a) In accordance with Subtopic 820-10, certain investments that were measured at net asset value per share (or its equivalent) have not been classified in the fair value hierarchy. The fair value amounts presented in this table are intended to permit reconciliation of the fair value hierarchy to the line items presented in the statement of financial position.

Southeastern Jurisdiction of the United Methodist Church and Agency

Notes to the Consolidated Financial Statements

Note 3. Fair Value Measurements (Continued)

For the years ended December 31, 2014 and 2013, the changes in the Level 3 assets measured at fair value on a recurring basis are as follows:

	<u>Assets Held in Perpetual Trust</u>
Balance, January 1, 2013	\$ 656,061
Change in value	<u>85,302</u>
Balance, December 31, 2013	741,363
Change in value	<u>6,140</u>
Balance, December 31, 2014	<u><u>\$ 747,503</u></u>

Note 4. Temporarily Restricted Net Assets

Temporarily restricted net assets at December 31, 2014 and 2013, totaling \$647,503 and \$641,363, respectively, are related to the Renfro Trust and are available for the purpose of rural church development.

Note 5. Permanently Restricted Net Assets

Permanently restricted net assets at December 31, 2014 and 2013, are available for the following purposes:

	<u>2014</u>	<u>2013</u>
Investment in perpetuity, the income from which is expendable to support:		
Rural church development under the Renfro Trust agreement	\$ 100,000	\$ 100,000
Heritage Center operations and maintenance	430,617	430,617
	<u>\$ 530,617</u>	<u>\$ 530,617</u>

Note 6. Net Assets Released From Restrictions

During the year ended December 31, 2014 and 2013, net assets were released from donor restrictions by incurring expenses satisfying the restricted purposes or by occurrence of other events specified by donors.

	<u>2014</u>	<u>2013</u>
Creation and maintenance of Asbury Trail	\$ -	\$ 1,171
Heritage Center operations and maintenance	10,785	12,036
	<u>\$ 10,785</u>	<u>\$ 13,207</u>

Southeastern Jurisdiction of the United Methodist Church and Agency

Notes to the Consolidated Financial Statements

Note 7. Endowment

The Organization's endowment consists of a fund established to support the operations and maintenance of the Heritage Center, including acquisition of artifacts. As required by GAAP, net assets associated with the endowment fund are classified and reported based on the existence or absence of donor-imposed restrictions.

Interpretation of Relevant Law

The Organization has interpreted the North Carolina enacted version of the Uniform Prudent Management of Institutional Funds Act (NC UPMIFA) as requiring the preservation of the corpus of the original gift. As a result of this interpretation, the Organization classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulations are added to the fund. The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the Organization in a manner consistent with the standard of prudence prescribed by NC UPMIFA. In accordance with NC UPMIFA, the Organization considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

1. The duration and preservation of the fund.
2. The purposes of the Organization and the donor-restricted endowment fund.
3. General economic conditions.
4. The possible effects of inflation and deflation.
5. The expected total return from income and the appreciation of investments.
6. Other resources of the Organization.
7. The investment policies of the Organization.

Endowment net composition by type of fund as of December 31, 2014 and 2013, is as follows:

	2014			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted endowment funds	\$ -	\$ -	\$ 430,617	\$ 430,617
	\$ -	\$ -	\$ 430,617	\$ 430,617
	2013			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted endowment funds	\$ -	\$ -	\$ 430,617	\$ 430,617
	\$ -	\$ -	\$ 430,617	\$ 430,617

Southeastern Jurisdiction of the United Methodist Church and Agency

Notes to the Consolidated Financial Statements

Note 7. Endowment (Continued)

Changes in endowment net assets for the year ended December 31, 2014 and 2013, are as follows:

	2014			Total
	Unrestricted	Temporarily Restricted	Permanently Restricted	
Endowment net assets, beginning of year	\$ -	\$ -	\$ 430,617	\$ 430,617
Investment return:				
Interest income	-	8,083	-	8,083
Net realized gains	-	13,235	-	13,235
Net unrealized loss	-	(12,583)	-	(12,583)
Total investment return	-	8,735	-	8,735
Appropriation of endowment assets for expenditure	-	(8,735)	-	(8,735)
Endowment net assets, end of year	\$ -	\$ -	\$ 430,617	\$ 430,617

	2013			Total
	Unrestricted	Temporarily Restricted	Permanently Restricted	
Endowment net assets, beginning of year	\$ -	\$ -	\$ 430,617	\$ 430,617
Investment return:				
Interest income	-	10,006	-	10,006
Total investment return	-	10,006	-	10,006
Appropriation of endowment assets for expenditure		(10,006)	-	(10,006)
Endowment net assets, end of year	\$ -	\$ -	\$ 430,617	\$ 430,617

Southeastern Jurisdiction of the United Methodist Church and Agency

Notes to the Consolidated Financial Statements

Note 7. Endowment (Continued)

Return objectives and risk parameters: The Organization has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment while seeking to maintain the purchasing power of the endowment assets. Under this policy, as approved by the Organization, the endowment assets are invested in a manner that is intended to produce results that exceed the price and yield results of benchmark indexes while assuming a moderate level of investment risk. Actual returns in any given year may vary from this amount.

Strategies employed for achieving objectives: To satisfy its long-term rate-of-return objectives, the Organization relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). The Organization targets a diversified asset allocation that places a greater emphasis on equity-based investments to achieve its long-term return objectives within prudent risk constraints.

Spending policy and how the investment objectives relate to spending policy: The Organization has a policy of appropriating for distribution each year of up to 4.5% of its endowment fund's average fair value over the prior three years through the fiscal year-end preceding the fiscal year in which the distribution is planned. In establishing this policy, the Organization considered the long-term expected return on its endowment. Accordingly, over the long term, the Organization expects the current spending policy to allow its endowment to grow. This is consistent with the Organization's objective to maintain the purchasing power of the endowment assets held in perpetuity or for a specified term as well as to provide additional real growth through new gifts and investment return.